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ETD.N - Q4 2026 Ethan Allen Interiors Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2026 / 9:00PM GMT

CORPORATE PARTICIPANTS

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

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Taylor Zick *KeyBanc Capital Markets - Analyst*

Cristina Fernandez *Telsey Advisory Group LLC - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Ethan Allen fiscal 2026 fourth-quarter analyst conference call. (Operator Instructions) As a reminder, 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.

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

Thank you, operator, good afternoon and thank you for joining us today to discuss Ethan Allen's fiscal 2026 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 up the call for your question.

Before we begin, I'd like to remind the audience that this call is being webcast live under the News and Events tab within 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 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 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. As we reported, despite challenging economic environment and strong prior-year comparisons, we did well and reported strong margins and a robust balance sheet. We have continued to strengthen various areas of our unique vertically integrated enterprise, which includes having strong talent, continued strengthening our offerings, our North American-based manufacturing, our strong and repositioned retail network, our national and regional logistics, and implementing technology in various areas of our enterprise.

We have also continued with a strong cash position and give very good cash dividends.

We are positioned well, and after Matt provides a brief financial overview, I will discuss our initiatives to continue to grow our business.

Matt?

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

Thank you, Mr. Kathwari. Fiscal 2026 consolidated net sales were $579 million, which included fourth-quarter sales of $147 million. Quarterly sales benefited from a higher average ticket price and recent product introduction offset by lower contract sales, a decline in delivered unit volume, and fewer incoming orders.

Wholesale segment written orders declined 11.9% during the quarter, while our Retail segment written orders decreased 10.8% as a difficult prior-year comparison combined with lower traffic and macroeconomic uncertainty created near-term pressure.

The pace of written orders remained mostly consistent throughout the quarter, with May bringing in a slightly higher volume of orders due to the Memorial Day holiday. We were also pleased to see written order growth in our State Department business this past quarter.

We ended the fiscal year with wholesale backlog of $44 million, down 9% from last year. Lower order volume combined with improved lead times led to lower backlog.

For the full year, our consolidated gross margin was 61.2%, comparable to 60.5% last year. Our adjusted gross margin of 59.7% in the fourth quarter benefited from a change in sales mix, a higher average ticket, lower headcount, and reduced financing costs. The impact of tariffs, lower clearance margins, and higher manufacturing input costs contributed to our quarterly adjusted gross margin being lower than last year.

Fiscal 2026 operating income was $45 million with a margin of 7.8%. In the fourth quarter, our adjusted operating income was $11 million with a margin of 7.4% compared to 9.7% last year. Our current year operating margin was impacted by higher tariffs and fixed cost de-leveraging from lower sales.

Headcount totaled 3,062 at fiscal year-end, a decrease of 5% from a year ago, with 5% decreases noted in both Wholesale and Retail.

On a full-year basis, adjusted diluted EPS was $1.61. Fourth-quarter adjusted diluted EPS was $0.36. Our effective tax rate was 25% for the full year and 24.8% for the quarter, which vary from the 21% federal statutory rate primarily due to state taxes.

Now, turning to our liquidity. We remain debt-free with substantial liquidity and a robust balance sheet. During the fourth quarter, we generated $22 million in operating cash flow, which brought our full year total to $52 million. Included in our operating cash flow was $5 million in tariff refunds received.

Strong operating cash flow combined with disciplined capital management helped grow our cash and investments to $187.5 million at fiscal year-end.

We also continued our practice of paying cash dividends. In May, we paid a regular quarterly cash dividend of $10 million or $0.39 per share, which brought our total dividends paid to $46 million for the year.

We are also pleased that yesterday, our Board approved a special and regular quarterly cash dividend, both payable in August. This marks the sixth-consecutive year in which Ethan Allen has declared and paid a special cash dividend.

Reflecting confidence in the business and our strong liquidity position, we also returned value to shareholders through the repurchase of 250,000 shares of our stock for $5 million. A total of 1.8 million shares remain authorized for future repurchase under our existing program.

Before concluding, I'd like to provide an update on the current tariff environment, which has impacted our business. Most recently, new tariffs under Section 301 of the Trade Act became effective on July 24 at a rate of either 10% or 12.5% depending on the country of origin. These new tariffs replaced the previously issued Section 122 tariffs, which expired on July 24 and had imposed a 10% global rate.

Our current exposure is concentrated on the 25% tariff that took effect last October under Section 232, which is on upholstered wood products produced and exported out of Mexico. Our remaining exposure is primarily from the newly issued Section 301 tariffs, which apply a 10% tariff on products we manufacture in Honduras as well as our imports from Indonesia, India, and other countries. Based on our operating levels, we estimate our total tariff exposure to be approximately $15 million.

In addition, as noted last quarter, the US Supreme Court invalidated certain IEEPA tariffs introduced in 2025 and required monetary refunds to be issued. By following the refund claim process, we were refunded $5 million during the just completed fourth quarter, which we presented as a reduction to cost of goods sold. This refund benefited our gross and operating margins by 340 basis points and represent nearly all of the previously paid IEEPA tariffs.

As I finish my prepared remarks, we remain confident in our long-term strategy as the interior design destination operating a vertically integrated enterprise supported by strong North American manufacturing and logistics.

Our margins, net income, and cash held up well despite lower sales. We remain disciplined in how we're managing expenses and are well-positioned heading into the new fiscal year.

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*

Thanks, Matt. As we continue to implement strategies to further strengthen and grow our business, we have been able to improve our operating efficiency and run a strong and lean enterprise.

The main areas of our focus to grow our business and manage our operations include: continue to strengthen our talent in our vertically integrated enterprise in various areas, including our retail network, merchandising, marketing, manufacturing, logistics, and technology.

Continue to be the interior design destination. Today, we have approximately 500 interior designers that are able to provide complimentary interior design services and helps create custom furniture for their homes, all free of charge.

Combining good service and technology is critical to this -- in this area. Strengthening our products under the design umbrella of classics with a modern design.

Combining technology with strong talent continues to be our strong focus, expanding and enhancing our retail network, including opening of our interior design centers. Today, we have 171 design centers in North America. And in the last few years, many have been relocated, made smaller, and combining strong talent with technology, further implement initiatives to make our North American manufacturing more efficient.

Today, most of our furniture is made in our North American facilities in Vermont, North Carolina, Mexico, and Honduras. Almost all of our furniture made in our plants in North America is custom on receipt of orders. Delivering our products with personal service to our clients at one delivered price across North America is unique and a great strength.

And finally, we maintain a strong cash balance and provide good dividends. We just announced a regular cash dividend of $0.39 and a special cash dividend of $0.25, both payable on August 26, 2026.

With this, I'd like to open it up for any questions or comments.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brad Thomas, KeyBanc Capital Markets.

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

Yeah, hello, Brad, how are you?

Taylor Zick - *KeyBanc Capital Markets - Analyst*

Hey Farooq, it's actually Taylor Zick on for Brad today. Thanks for taking our questions.

I just kind of wanted to ask about the retail written orders during the quarter. We're down 11%, which is deceleration from 3Q. But on a two-year stack, it seemed to improve a bit.

And Matt, I know you said you had higher volumes in May as well, but you kind of just give us a bit more color on what you saw during the quarter?

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

Yes, Taylor, of course, in the quarter, we did see consumers somewhat being concerned and holding back. With that in mind, I mean, overall, our written orders during the quarter were down about close to 11%, 10.8%, and however, we still maintain relatively good orders coming in, and our designers remain motivated, but it does reflect somewhat of a softer economy.

Taylor Zick - *KeyBanc Capital Markets - Analyst*

Got you. And then maybe kind of if I can ask about refunds as well. Matt, you had noted about $5 million in tariff refunds, IEEPA tariff refunds sounds like it's most of what you expect to receive and may have been aimed at those share repurchases. But I guess, one, do you expect any incremental refunds here? And then how do you think the industry is using these refunds? Do you -- have you seen them get incrementally promotional, as they have these dollars now?

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

Yeah, that's a great question, Taylor. This is Matt. So the $5 million refund we got in this past quarter was substantially all of what we were expecting. There may be a little bit more, but this is substantially all that we anticipate to collect and it all related to the IEEPA tariffs that we previously paid earlier in the fiscal 2026 year.

As for part two of your question, what do other companies do? It's a mixed bag. You've seen some of the bigger company headlines out there, Walmarts of the world, looking to potentially roll back prices, as they say. Others, FedEx and UPS are returning it because they can directly attribute it surcharges.

So it's too early to tell what everyone's doing, but that's what I've seen in the market so far. The refund did all come back relatively recently in June, so it's still pretty early on from a timing perspective.

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

And also I would like to add that in our case, we do make most of our products in our own facilities in North America, so we were less impacted. Some -- we are somewhat impacted with our operations in Mexico, but not as much in the rest of the world because of the fact of our manufacturing right here in the United States as well.

Taylor Zick - *KeyBanc Capital Markets - Analyst*

Yeah, of course. And then maybe if I can squeeze one last question in here. Maybe on the Wholesale segment, that segment had been pressured over the last year or so with lower contract sales, State Department, and some independents, I think you've noted. But I think Farooq, you also said that the -- if I heard it correctly, the State Department was positive in the quarter. So I guess, how were you thinking about that segment's ability to kind of return to growth here in your next fiscal year as we lap some of these headwinds?

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

Taylor, we did see in our three quarters in our fiscal year that the State Department was down quite a bit. It's reflected in the initiatives that have been taken by the government relating to reducing the State Department buying products, we saw that.

But in the fourth quarter we did see that, and even this fiscal year just starting now, we did -- we have seen some increases, which has been good, and of course, that has -- that will have some impact in our deliveries in this fiscal -- first-year quarter in this new year. But we -- our contract is still there. The government is thinking of perhaps sending out new bids for contracts. We haven't heard it yet. But good news is after really restraining their teams all over the world to reduce buying, in the fourth quarter we saw that they were starting to get back, and we saw that increase.

Taylor Zick - *KeyBanc Capital Markets - Analyst*

That's great. All right, I'll pass it along. Thanks so much.

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

All right, Taylor. Take care.

Operator

Cristina Fernández, 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. Hi, good afternoon, Farooq and Matt. I wanted to follow-up on Taylor's question on the tariff refund. How are you planning on using it? Was that tied to the special dividend or not? And do you expect to reinvest it in the business or are there any specific uses for that $5 million you received?

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

Well, it is, of course, a relatively small amount relative to the total amount of cash that we have, so we just put it in our cash. And I think that, it really is -- it is going to remain as part of our cash, and we want to maintain a healthy cash balance, so the [$5 million] is important but not tremendously that much of a major factor. But we want to continue to have strong cash, and then we continue also to see that we continue to do our regular and special dividends.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

And if you start fiscal year 2027, I wanted to see if you can provide a bit more detail into some of the initiatives to drive growth that you mentioned. I was particularly interested in products and marketing and real estate. Is there any specific programs that you're working on that you can talk about? Or I guess, what could be new or different for fiscal year '27? Thanks.

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

Yes, that's a good question, Cristina. Our focus remains to make sure that we strengthen the various areas of our enterprise. The good news is in the last two years, even last year, we spent a fair amount of time in making sure that our design centers project well. We have made them smaller. We made a great amount of investment. But good news is, coming into this fiscal year, most of that has been done.

The second is our interior design network. Our interior design network is critical to our business, and we want to make sure they do well. So I think that going forward to this fiscal year, we are positioned well.

Now, obviously we need to get increased traffic, we need to get more people coming in, but we are very well-positioned in the projection of our design centers, our interior designers.

And then finally, and also thirdly, we have also been introducing very strong new products to make sure that we have strong offerings.

So combining strong offerings, our interior design network, and then finally, technology is critical. Our interior designers are using more and more technology in working with our clients. So when you combine all of those things, it gives us an opportunity to continue the progress.

And obviously, of course, we are looking at the economy and consumer confidence and all those factors. We are keeping those in mind, but we are well-positioned going into this fiscal year.

Cristina Fernandez - *Telsey Advisory Group LLC - Analyst*

And the last question, maybe for Matt. On CapEx, should we think about fiscal year '27, the spend being very similar to fiscal year '26, and are there any other, I guess, investments to keep in mind?

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

I can answer that. I think that at this stage, our objective would be to continue very similar to what we've done in this last fiscal year.

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, Cristina, thanks very much.

Any other comments or questions?

Operator

And it looks like we have reached the end of the question-and-answer session. Therefore, I will turn it back over to Mr. Farooq Kathwari for close remarks.

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

All right, thanks very much. Glad to have you all on. These are some of the challenging times, but the good news is we are positioned well.

I ask about close to 40 of our team members every week to write a report on five subjects.

First is talent. We want to make sure we have strong talent. And the good news is, we have strong talent across our vertically integrated network. Last week, I went in Vermont and North Carolina where we are manufacturing. Good to see those two operations.

Then we want to make sure that we have strong marketing. In marketing, we are providing a lot of marketing. We are extensively, but marketing, both internal marketing, external marketing, using technology in marketing is important.

And then overall, the use of technology, whether it's in manufacturing or and retail is critical, and we're going to continue to do that. Our interior designers are more productive. We have less interior designers than we have had in the last year or in the last 5 or 10 years. It is because of the fact of having strong interior designers and technology.

And finally, social responsibility is critical, so we'll continue to make sure that we are socially responsible.

I want to thank you all for participating and if there's any more questions, comments, please let us know. Thank you very much.

Operator

Thank you. And this concludes today's conference, and you may disconnect your lines at this time. We thank you for your participation.