Ethan Allen Interiors (ETD)

Updated May 31st, 2022, by Thomas Richmond

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	12.7%	**Market Cap:**	$600 M
Fair Value Price:	$35	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	08/15/22
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.8%	**Dividend Payment Date:**	08/30/22
Dividend Yield:	5.3%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Ethan Allen Interiors (ETD) is a vertically integrated interior design company that manufactures and sells retail home furnishings, such as beds, dressers, chairs, lighting, mattresses, and decorative pieces. The company sells online and through its network of 302 design centers, where 161 are independently owned and 141 are company operated. In 2021, the business sold 43% of its products through its Wholesale segment, which includes sales from independently owned stores, and the business sold 57% of its revenue through its owned stores in its Retail segment. It's important to note that this business is in the Consumer Cyclical sector because it sells consumer durables. These are products that tend to last a long time, so people may forego purchasing consumer durables during a recession. The business suffered during the Covid-19 pandemic as the company was forced to close its service centers, but the business was able to quickly bounce back with increased customer demand as mandates lifted. We believe the business is positioned to continue to benefit from long term work from home trends that we forecast. Additionally, the business follows a build-to-order business model, where orders are customized to the customer's preference.

On April 28th, 2022, Ethan Allen reported Q3 2022 results for the period ending March 31st, 2022. The business earned $0.97 in diluted earnings-per-share in the quarter, up 59.0% year-over-year, and sales increased 11.7% year-over-year to $197.7 million driven by strong demand trends. Retail net sales increased 17.9% year-over-year to $166.7 million, and wholesale net sales increased 12.3% to $121.0 million for the quarter. Management expects to see softening consumer demand in home furnishings in the short term.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.96	$1.32	$1.45	$1.41	$1.92	$1.45	$1.25	$1.56	$0.49	$2.37	***$3.50***	***$3.68***
DPS	$0.30	$0.36	$0.40	$0.50	$0.62	$0.74	$0.76	$0.76	$0.63	$0.96	***$1.28***	***$1.41***
Shares	29	29	29	28	28	27	27	27	25	25	***25***	***25***

Over the past 9 years, Ethan Allen has seen earnings-per-share grow at an average annualized rate of 10.6%. In 2022, we expect a jump in earnings-per-share to $3.50 because the business has already reported $2.68 in earnings-per-share for the first 3 quarters of the fiscal year. We forecast that the business will grow earnings-per-share at ~1% annually after 2022's expected uptick in earnings-per-share, which guides our 2027 earnings-per-share estimate of ~$3.68.

Over the past 9 years, the business has grown dividends by 13.8% annually, and over the past 5 years, the business has grown dividends at 11.6% annually. With earnings-per-share only expected to grow 1% annually, we expect dividends to grow about 2% annually over the next 5 years, which is less than historic growth rates. While Ethan Allen only has a 3 year history of increasing dividends after cutting dividends in 2020, the business has a 25 year consecutive history of paying dividends.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.9	20.5	18.4	18.9	15.3	22.0	21.8	13.3	32.5	8.9	***6.9***	***10.0***
Avg. Yld.	1.4%	1.3%	1.5%	1.9%	2.1%	2.3%	2.8%	3.7%	4.0%	4.5%	***5.3%***	***3.8%***

Over the past 5 years, Ethan Allen has averaged a P/E ratio of 19.7, and over the past 9 years, the business has averaged a P/E of 19.4. We estimate that a P/E ratio of about 10 is a fair P/E ratio for this business going forward, due to the company's low expected growth rate. This outlook guided our 2027 P/E estimate. Although the P/E is not expected to reach the multiple that it's historically traded at, we forecast that the multiple still has room to rise. Today, the stock offers a high dividend yield of 5.3%, which we expect will be well covered by earnings-per-share. Although the stock does offer a high yield for investors seeking dividend income, investors should understand that this is a cyclical company, and the business may cut its dividend if earnings fall.

Safety, Quality, Competitive Advantage, & Recession Resiliency

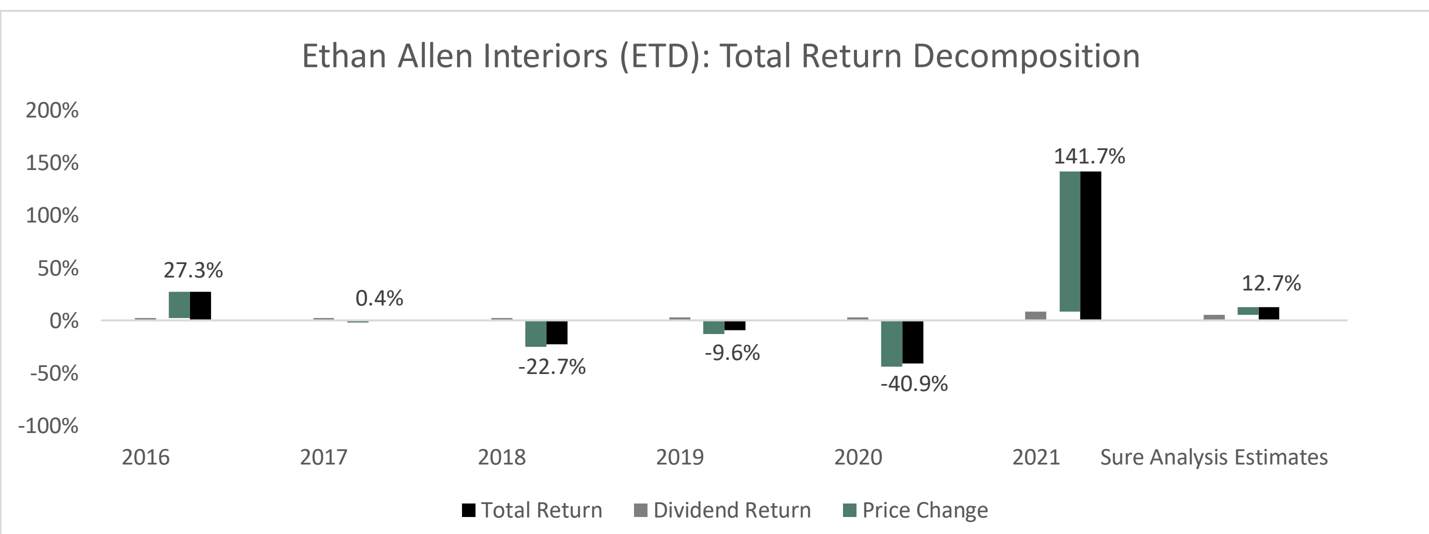
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	31%	27%	28%	35%	32%	51%	61%	49%	129%	41%	***37%***	***38%***

Ethan Allen has averaged a payout ratio of 48.3% over the past 9 years. With the strong growth in earnings-per-share in 2022, we expect that the business will have a low payout ratio for the rest of 2022 and over the intermediate term. The business has no debt, which adds a strong level of safety to the business, but investors should understand that this business will most likely be impacted by economic downturns. While Ethan Allen is far from the cheapest retailer in their markets, the business has competitive advantages such as vertical integration, North American manufacturing operations that allow them to deliver higher quality products, and made-to-order products.

Final Thoughts & Recommendation

Ethan Allen offers investors an opportunity to invest in an established name-brand business that sells high-quality furniture. At today's price, we rate the stock as a Buy because total return prospects come in at 12.7% annually over the next five years. Still, investors should understand that this is a cyclical business, and that earnings and dividends are both at risk if there's a recession.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	729	729	747	755	794	763	767	747	590	685
Gross Profit	390	398	406	411	442	420	416	409	323	393
Gross Margin	53.5%	54.6%	54.4%	54.5%	55.7%	55.0%	54.2%	54.8%	54.8%	57.4%
SG&A Exp.	341	338	337	345	353	362	367	357	312	313
D&A Exp.	19	18	18	19	19	20	20	20	17	16
Operating Profit	50	60	70	66	89	58	49	53	12	80
Op. Margin	6.8%	8.3%	9.3%	8.7%	11.2%	7.6%	6.4%	7.0%	2.0%	11.6%
Net Profit	50	32	43	37	57	36	36	26	9	60
Net Margin	6.8%	4.5%	5.7%	4.9%	7.1%	4.7%	4.7%	3.4%	1.5%	8.8%
Free Cash Flow	15	42	41	35	35	61	30	46	37	118
Income Tax	(8)	18	19	20	31	21	13	8	5	16

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	645	617	654	606	577	568	530	510	623	683
Cash & Equivalents	80	73	109	76	53	58	22	21	72	105
Acc. Receivable	15	12	12	13	9	12	12	14	8	9
Inventories	156	137	146	152	162	149	163	162	126	144
Goodwill & Int.	45	45	45	45	45	45	45	45	45	45
Total Liabilities	323	283	287	235	185	167	147	146	295	332
Accounts Payable	27	23	24	19	15	17				
Long-Term Debt	155	131	131	76	42	14	-	1	50	-
Total Equity	322	334	367	370	392	401	384	364	328	351
LTD/E Ratio	0.48	0.39	0.36	0.21	0.11	0.04	-	0.00	0.15	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.8%	5.1%	6.8%	5.9%	9.6%	6.3%	6.6%	4.9%	1.6%	9.2%
Return on Equity	16.5%	9.9%	12.2%	10.1%	14.9%	9.1%	9.3%	6.9%	2.6%	17.7%
ROIC	10.8%	6.9%	8.9%	7.9%	12.9%	8.5%	9.1%	6.9%	2.4%	16.5%
Shares Out.	29	29	29	28	28	27	27	27	25	25
Revenue/Share	25.06	24.94	25.50	25.86	28.04	27.30	27.76	27.91	22.63	27.03
FCF/Share	0.51	1.45	1.39	1.21	1.24	2.18	1.09	1.72	1.42	4.65

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.