Ethan Allen Interiors (ETD)

Updated November 11th, 2022, by Thomas Richmond

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	13.7%	**Market Cap:**	$700 M
Fair Value Price:	$42	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	12/15/22
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.4%	**Dividend Payment Date[1]:**	01/05/22
Dividend Yield:	4.6%	**5 Year Price Target**	$46	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**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 approximately 302 design centers, where 161 are independently owned and 141 are company operated. In 2022, 15.6% of net sales came from the Wholesale segment, which includes sales from independently owned stores, and the business sold 84.4% 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 October 26th, 2022, Ethan Allen reported Q1 2022 results for the period ending September 30th, 2022. The business earned $1.11 in diluted earnings-per-share in the quarter, beating analysts' estimates by 32 cents and up 38.8% year-over-year. Total sales increased 17.7% year-over-year to $214.5 million, retail net sales increased 18.5% year-over-year to $183.7 million, and wholesale net sales increased 4.8% to $114.7 million for the quarter. The company's gross margin increased by 50 basis points year-over-year to 60.4% with Retail sales becoming a higher portion of total sales, product pricing actions, and higher manufacturing efficiency. Adjusted operating margins increased 240 basis points year-over-year to 17.6%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.32	$1.45	$1.41	$1.92	$1.45	$1.25	$1.56	$0.49	$2.37	$3.93	***$3.50***	***$3.86***
DPS	$0.36	$0.40	$0.50	$0.62	$0.74	$0.76	$0.76	$0.63	$0.96	$1.15	***$1.28***	***$1.41***
Shares	29	29	28	28	27	27	27	25	25	25	***25***	***25***

Over the past 9 years, Ethan Allen has seen earnings-per-share grow at an average annualized rate of 12.9%. In 2023, we expect earnings-per-share to fall slightly to $3.50 as excess demand starts to subside. We forecast that the business will grow earnings-per-share at ~2% annually after 2023, which guides our 2028 earnings-per-share estimate of ~$3.86.

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 11.0% annually. We expect dividends to grow in line with earnings-per-share at 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 their dividends slightly in 2020, the business has a 25-year consecutive history of paying dividends, which gives us confidence that the business will continue paying dividends.

[1] Estimated Date.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	20.5	18.4	18.9	15.3	22.0	21.8	13.3	32.5	8.9	6.3	***8.0***	***12.0***
Avg. Yld.	1.3%	1.5%	1.9%	2.1%	2.3%	2.8%	3.7%	4.0%	4.5%	4.6%	***4.6%***	***3.0%***

Over the past 5 years, Ethan Allen has averaged a P/E ratio of 16.6, and over the past 9 years, the business has averaged a P/E of 17.8. We estimate that a P/E ratio of about 12 is a fair P/E ratio for this business going forward, due to the company's low expected growth rate. This outlook guided our 2028 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 4.6%, 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

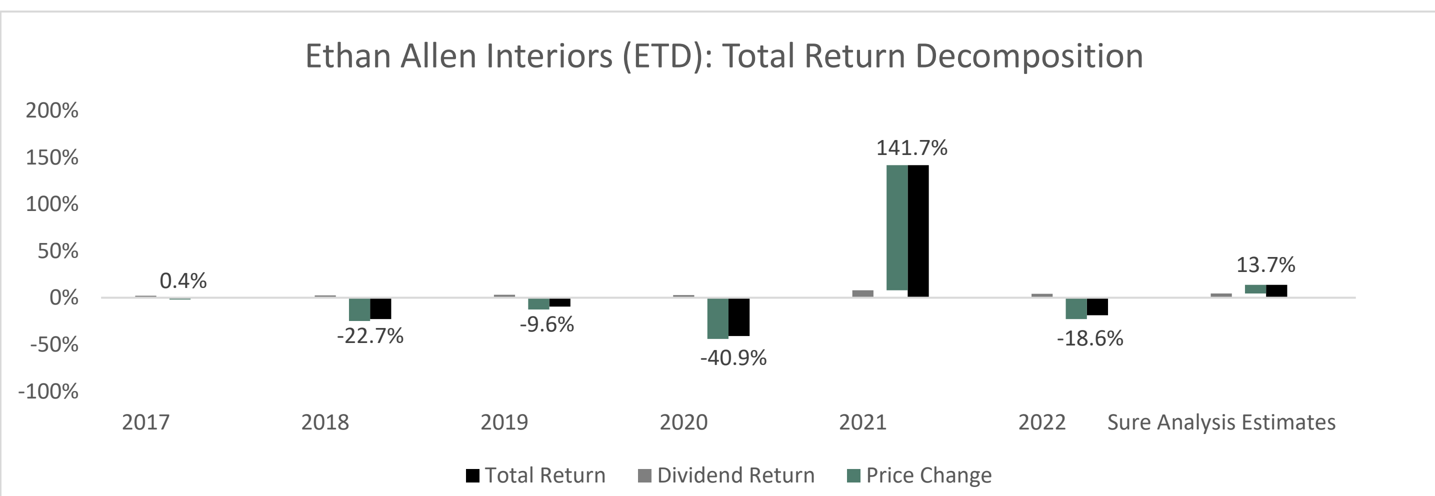
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	28%	35%	32%	51%	61%	49%	129%	41%	29%	***37%***	***37%***

Ethan Allen has averaged a payout ratio of 48.2% over the past 9 years. With earnings-per-share expected to grow at the same pace as dividends, we expect that the business will continue to have a low payout ratio 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 13.7% annually over the next five years driven by a 4.6% dividend yield, an estimated 2% annual earnings-per-share growth, and an 8.4% annual return from the valuation multiple rising. While the stock does look to offer a strong return today, 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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	729	747	755	794	763	767	747	590	685	818
Gross Profit	398	406	411	442	420	416	409	323	393	485
Gross Margin	54.6%	54.4%	54.5%	55.7%	55.0%	54.2%	54.8%	54.8%	57.4%	59.3%
SG&A Exp.	338	337	345	353	362	367	357	312	313	351
D&A Exp.	18	18	19	19	20	20	20	17	16	16
Operating Profit	60	70	66	89	58	49	53	12	80	134
Op. Margin	8.3%	9.3%	8.7%	11.2%	7.6%	6.4%	7.0%	2.0%	11.6%	16.4%
Net Profit	32	43	37	57	36	36	26	9	60	103
Net Margin	4.5%	5.7%	4.9%	7.1%	4.7%	4.7%	3.4%	1.5%	8.8%	12.6%
Free Cash Flow	42	41	35	35	61	30	46	37	118	56
Income Tax	18	19	20	31	21	13	8	5	16	35

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	617	654	606	577	568	530	510	623	683	720
Cash & Equivalents	73	109	76	53	58	22	21	72	105	110
Acc. Receivable	12	12	13	9	12	12	14	8	9	17
Inventories	137	146	152	162	149	163	162	126	144	177
Goodwill & Int.	45	45	45	45	45	45	45	45	45	45
Total Liabilities	283	287	235	185	167	147	146	295	332	313
Accounts Payable	23	24	19	15	17					
Long-Term Debt	131	131	76	42	14	-	1	50	-	0
Total Equity	334	367	370	392	401	384	364	328	351	407
LTD/E Ratio	0.39	0.36	0.21	0.11	0.04	-	0.00	0.15	-	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.1%	6.8%	5.9%	9.6%	6.3%	6.6%	4.9%	1.6%	9.2%	14.7%
Return on Equity	9.9%	12.2%	10.1%	14.9%	9.1%	9.3%	6.9%	2.6%	17.7%	27.2%
ROIC	6.9%	8.9%	7.9%	12.9%	8.5%	9.1%	6.9%	2.4%	16.5%	27.2%
Shares Out.	29	29	28	28	27	27	27	25	25	25
Revenue/Share	24.94	25.50	25.86	28.04	27.30	27.76	27.91	22.63	27.03	32.04
FCF/Share	1.45	1.39	1.21	1.24	2.18	1.09	1.72	1.42	4.65	2.19

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