



Ethan Allen Interiors (ETD)

Updated April 25th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	8.5%	Market Cap:	\$865 M
Fair Value Price:	\$34	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	5/6/24
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	5/23/24
Dividend Yield:	4.7%	5 Year Price Target	\$41	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

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, of which 161 are independently owned and 141 are company operated. In fiscal 2023, 16% of net sales came from the Wholesale segment, which includes sales from independently owned stores, while the Retail segment generated 84% of sales. It is 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 these products during a recession. The company suffered during the pandemic as it was forced to close its service centers, but it recovered swiftly thanks to pent-up demand amid huge fiscal stimulus packages. We believe the business is positioned to continue to benefit from long-term work from home trends. Additionally, the business follows a build-to-order business model, where orders are customized to the customer's preference.

In late April, Ethan Allen reported (4/24/24) financial results for the third quarter of fiscal 2024. Retail sales and wholesale sales decreased -19% and -21%, respectively, over the prior year's quarter but gross margin expanded from 59.9% to 61.3% thanks to lower input costs and a more favorable product mix. Nevertheless, earnings-per-share fell -34%, from \$0.87 to \$0.48, missing the analysts' consensus by \$0.16 due to poor sales. It was the third consecutive earnings miss after eight quarters in a row. Business momentum has greatly decelerated off blowout levels amid pent-up demand last year, after the pandemic had subsided. Due to higher-than-expected business deceleration, we have lowered our forecast for earnings-per-share in fiscal 2024 from \$3.00 to \$2.80.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.45	\$1.41	\$1.92	\$1.45	\$1.25	\$1.56	\$0.49	\$2.37	\$3.93	\$4.03	\$2.80	\$3.41
DPS	\$0.40	\$0.50	\$0.62	\$0.74	\$0.76	\$0.76	\$0.63	\$0.96	\$1.15	\$1.32	\$1.56	\$1.84
Shares	29	28	28	27	27	27	25	25	25	26	26	25

Over the past 9 years, Ethan Allen has grown its earnings-per-share at an average annualized rate of 12.0%. It posted record earnings in fiscal 2023 but we expect lower earnings this year due to tough comparisons and a slowing economy. We expect the company to grow its bottom line by 4.0% per year on average beyond this year.

Ethan Allen has grown its dividend by 14.3% per year on average over the last decade and by 13.6% per year on average over the last 5 years. We expect the dividend to grow in line with earnings-per-share going forward. While Ethan Allen only has a 4-year history of increasing dividends after cutting its dividend 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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.4	18.9	15.3	22.0	21.8	13.3	32.5	8.9	6.3	6.4	11.8	12.0
Avg. Yld.	1.5%	1.9%	2.1%	2.3%	2.8%	3.7%	4.0%	4.5%	4.6%	5.1%	4.7%	4.5%

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Excluding 2020, in which depressed earnings resulted in an abnormally high price-to-earnings ratio, Ethan Allen has traded at an average price-to-earnings ratio of 14.6 over the last decade. Due to lackluster growth expectations, we assume a fair price-to-earnings ratio of 12.0 for this stock. If the stock trades at our assumed fair valuation level in five years, it will enjoy a modest 0.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

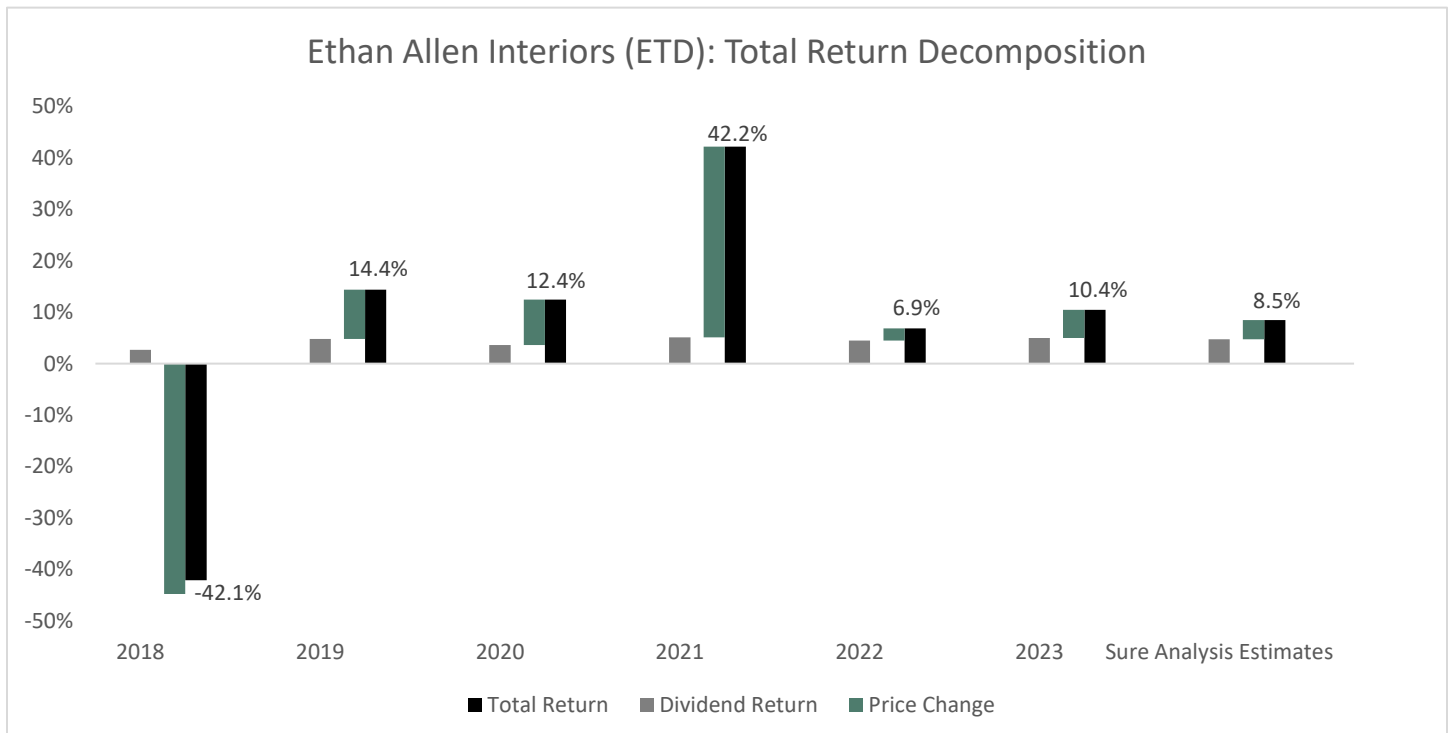
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	35%	32%	51%	61%	49%	129%	41%	29%	33%	56%	54%

Ethan Allen has averaged a payout ratio of 49% 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. Ethan Allen has no debt, which adds a strong level of safety to the company, but investors should understand that this business is vulnerable to economic downturns. While Ethan Allen is far from the cheapest retailer in its markets, the business has competitive advantages such as vertical integration, North American manufacturing operations that enable the company 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. However, the stock has rallied 22% since our last research report, in January, and hence it has become less attractive. It could offer an 8.5% average annual total return over the next five years thanks to 4.0% earnings growth, a 4.7% dividend and a 0.4% annualized valuation tailwind. We thus lower our rating from “buy” to “hold”. Moreover, investors should always be aware of the high vulnerability of the company to recessions. The economy has slowed down lately due to the aggressive interest rate hikes implemented by the Fed, which is doing its best to restore inflation to its long-term target around 2%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	747	755	794	763	767	747	590	685	818	791
Gross Profit	406	411	442	420	416	409	323	393	485	480
Gross Margin	54.4%	54.5%	55.7%	55.0%	54.2%	54.8%	54.8%	57.4%	59.3%	60.7%
SG&A Exp.	337	345	353	362	367	357	312	313	351	347
D&A Exp.	18	19	19	20	20	20	17	16	16	16
Operating Profit	70	66	89	58	49	53	12	80	134	133
Op. Margin	9.3%	8.7%	11.2%	7.6%	6.4%	7.0%	2.0%	11.6%	16.4%	16.8%
Net Profit	43	37	57	36	36	26	9	60	103	106
Net Margin	5.7%	4.9%	7.1%	4.7%	4.7%	3.4%	1.5%	8.8%	12.6%	13.4%
Free Cash Flow	41	35	35	61	30	46	37	118	56	87
Income Tax	19	20	31	21	13	8	5	16	35	35

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	654	606	577	568	530	510	623	683	720	745
Cash & Equivalents	109	76	53	58	22	21	72	105	110	62
Acc. Receivable	12	13	9	12	12	14	8	9	17	12
Inventories	146	152	162	149	163	162	126	144	177	149
Goodwill & Int.	45	45	45	45	45	45	45	45	45	45
Total Liabilities	287	235	185	167	147	146	295	332	313	274
Accounts Payable	24	19	15	17					37	29
Long-Term Debt	131	76	42	14	-	1	50	-	0	0
Total Equity	367	370	392	401	384	364	328	351	407	471
LTD/E Ratio	0.36	0.21	0.11	0.04	-	0.00	0.15	-	0.00	0

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.8%	5.9%	9.6%	6.3%	6.6%	4.9%	1.6%	9.2%	14.7%	14.4%
Return on Equity	12.2%	10.1%	14.9%	9.1%	9.3%	6.9%	2.6%	17.7%	27.2%	24.1%
ROIC	8.9%	7.9%	12.9%	8.5%	9.1%	6.9%	2.4%	16.5%	27.2%	24.1%
Shares Out.	29	28	28	27	27	27	25	25	25	26
Revenue/Share	25.50	25.86	28.04	27.30	27.76	27.91	22.63	27.03	32.04	30.91
FCF/Share	1.39	1.21	1.24	2.18	1.09	1.72	1.42	4.65	2.19	3.39

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

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