



Ethan Allen Interiors (ETD)

Updated January 31st, 2025, by Aristofanis Papadatos

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	6.1%	Market Cap:	\$819 M
Fair Value Price:	\$28	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	2/11/25
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	2/26/25
Dividend Yield:	4.9%	5 Year Price Target	\$34	Years Of Dividend Growth:	4
Dividend Risk Score:	F	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 2024, 41% of net sales came from the Wholesale segment, which includes sales from independently owned stores, while the Retail segment generated 59% 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 January, Ethan Allen reported (1/29/25) financial results for the second quarter of fiscal 2025. Retail sales and wholesale sales decreased -4% each over the prior year's quarter while gross margin edged up from 60.2% to 60.3%. Due to lower sales, earnings-per-share fell -13%, from \$0.68 to \$0.59, and missed the analysts' consensus by \$0.02. The decrease in sales was smaller than in previous quarters but still business momentum is poor compared to 2022-2023, which were marked by pent-up demand after the pandemic. Due to the absence of signs of a recovery, we still expect 4-year low earnings-per-share of about \$2.35 in fiscal 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.41	\$1.92	\$1.45	\$1.25	\$1.56	\$0.49	\$2.37	\$3.93	\$4.03	\$2.49	\$2.35	\$2.86
DPS	\$0.50	\$0.62	\$0.74	\$0.76	\$0.76	\$0.63	\$0.96	\$1.15	\$1.32	\$1.50	\$1.56	\$1.84
Shares	28	28	27	27	27	25	25	25	26	26	26	25

Over the past 9 years, Ethan Allen has grown its earnings-per-share at an average annualized rate of 6.5%. It posted record earnings in fiscal 2023 but lower earnings in fiscal 2024 due to tough comparisons and a slowing economy. We expect the company to gradually stabilize its performance and grow its bottom line by 4.0% per year on average beyond this year.

Ethan Allen has grown its dividend by 13.0% per year on average over the last decade and by 19.9% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.9	15.3	22.0	21.8	13.3	32.5	8.9	6.3	6.4	11.9	13.6	12.0
Avg. Yld.	1.9%	2.1%	2.3%	2.8%	3.7%	4.0%	4.5%	4.6%	5.1%	5.1%	4.9%	5.4%

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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 13.9 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 incur a -2.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

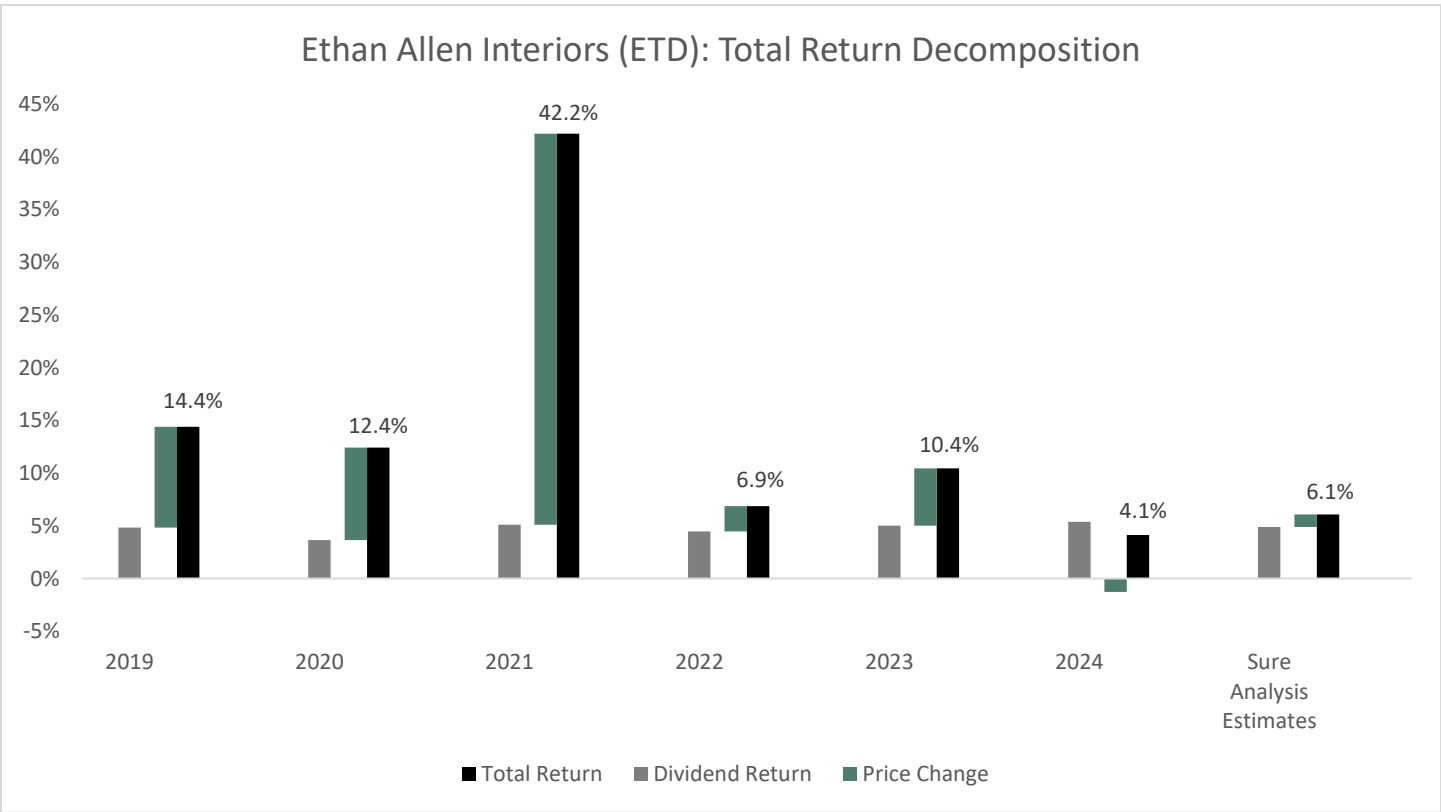
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	35%	32%	51%	61%	49%	129%	41%	29%	33%	60%	66%	64%

Ethan Allen has averaged a payout ratio of 52% over the past decade. With earnings-per-share expected to grow at approximately the same pace as dividends, we expect that the business will continue to have a decent 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. The stock could offer a 6.1% average annual total return over the next five years thanks to 4.0% earnings growth and a 4.9% dividend, partly offset by a -2.5% annualized valuation headwind. It thus maintains its hold rating. Moreover, investors should always be aware of the high vulnerability of the company to recessions. The economy and consumer spending have 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	755	794	763	767	747	590	685	818	791	646
Gross Profit	411	442	420	416	409	323	393	485	480	393
Gross Margin	54.5%	55.7%	55.0%	54.2%	54.8%	54.8%	57.4%	59.3%	60.7%	60.8%
SG&A Exp.	345	353	362	367	357	312	313	351	347	315
D&A Exp.	19	19	20	20	20	17	16	16	16	16
Operating Profit	66	89	58	49	53	12	80	134	133	78
Op. Margin	8.7%	11.2%	7.6%	6.4%	7.0%	2.0%	11.6%	16.4%	16.8%	12.1%
Net Profit	37	57	36	36	26	9	60	103	106	64
Net Margin	4.9%	7.1%	4.7%	4.7%	3.4%	1.5%	8.8%	12.6%	13.4%	9.9%
Free Cash Flow	35	35	61	30	46	37	118	56	87	71
Income Tax	20	31	21	13	8	5	16	35	35	22

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	606	577	568	530	510	623	683	720	745	745
Cash & Equivalents	76	53	58	22	21	72	105	110	62	70
Acc. Receivable	13	9	12	12	14	8	9	17	12	7
Inventories	152	162	149	163	162	126	144	177	149	142
Goodwill & Int.	45	45	45	45	45	45	45	45	45	45
Total Liabilities	235	185	167	147	146	295	332	313	274	262
Accounts Payable	19	15	17					37	29	27
Long-Term Debt	76	42	14	-	1	50	-	0	0	0
Total Equity	370	392	401	384	364	328	351	407	471	483
LTD/E Ratio	0.21	0.11	0.04	-	0.00	0.15	-	0.00	0	0

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.9%	9.6%	6.3%	6.6%	4.9%	1.6%	9.2%	14.7%	14.4%	8.6%
Return on Equity	10.1%	14.9%	9.1%	9.3%	6.9%	2.6%	17.7%	27.2%	24.1%	13.4%
ROIC	7.9%	12.9%	8.5%	9.1%	6.9%	2.4%	16.5%	27.2%	24.1%	13.4%
Shares Out.	28	28	27	27	27	25	25	25	26	26
Revenue/Share	25.86	28.04	27.30	27.76	27.91	22.63	27.03	32.04	30.91	25.64
FCF/Share	1.21	1.24	2.18	1.09	1.72	1.42	4.65	2.19	3.39	2.75

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

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