

Bassett Furniture Industries, Inc.

Fourth Quarter 2024 Conference Call Transcript

Gigi, Conference Call Operator: Good day, and thank you for standing by. Welcome to Bassett Furniture Earnings Conference Call for the fourth quarter of 2024. At this time, all participants are in a listen only mode. After the speakers' presentation, there will be a question and answer session. Call.

Please be advised today's conference is being recorded. I would now like to hand the conference over to your speaker today, Mike Daniel, CFO. Please go ahead.

Mike Daniel, CFO, Bassett Furniture: Thank you, Gigi, for the introduction. Welcome to Bassett Furniture's earnings call for the quarter ending November 30, 2024. Joining me today is our Chairman and CEO, Rob Spilman. We issued our news release yesterday after the market closed and it's available on our website. After today's remarks about our quarter, we will open the call up for a Q and A session.

We will post the transcript of the call on our investor site within 48 hours of this call. During today's call, certain statements we make may be considered forward looking and inherently involve risks and uncertainties that could cause actual results to differ materially from management's present view. These statements are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. The company cannot agree or cannot guarantee the accuracy of any forecast or estimate, nor does it undertake any obligation to update such forward looking statements. For more information, including important cautionary notes, please see the company's annual report on Form 10 K for the fiscal year ending November 30, 2024 to be filed next week.

Other filings with the SEC describing risks related to our business are available on our corporate website. Now I'll turn it over to Rob for comments about the fourth quarter. Rob?

Rob Spilman, Chairman and CEO, Bassett Furniture: Thank you, Mike. Good morning, everyone, and thank you for joining us today. Our industry has long been tied to housing and with persistent sluggish home sales, depleted levels of housing inventory and higher mortgage interest rates, furniture sales lagged again in the 4th quarter. We took appropriate steps in 2024 to right size our business through a comprehensive restructuring plan that we announced in July and we've been executing since then. We are pleased to have returned Bassett to profitability for this quarter.

While the major components of our restructuring plan were complete at the end of November, we continue to evaluate opportunities for increasing efficiency, leveraging our cost structure and influencing our mindset to run a leaner business on an ongoing basis. We focus a significant amount of time on analyzing how we can run our business smarter, while we navigate the ongoing challenging housing environment. In 2024, existing home sales were at the level they were in 1995, 30 years ago. Our entire industry is in search of the elusive bottoming out of demand to enable better planning of our business. Industry forecasts point to only a slight uptick in existing home sales for 2025.

So we prepared our strategic plan to weather another year of tepid demand. Let me now turn to more details on the results of the 4th quarter. While consolidated sales were down by 11% for the quarter, written retail sales decreased by only 0.6 percent. We were pleased with our performance over the 2 week Black Friday promotion where retail written sales were up 25.1% over last year's promotion, generating strong customer deposits and a better backlog to begin 2025. Wholesale orders were down by 3.1% for the quarter, while wholesale orders received from corporate stores increased by 1.8% for the period.

The majority of this quarter's wholesale decline was attributed to the comparison to last year's aggressive inventory reduction program of club level. Total outdoor orders for this year's fourth quarter, although representing only 7.6% of the wholesale segment, nevertheless grew by an exciting 33%. As mentioned, the primary components of our restructuring plan have been implemented. We've proven we can run on leaner inventory, which was down

more than \$8,000,000 on a consolidated basis at quarter end compared to last year. Wholesale inventory was down \$6,500,000. The majority was due to the domestic wood plant consolidation and club level.

Benefits of rightsizing our operating costs began to surface in the 4th quarter. The remaining domestic wood manufacturing facility operated at a higher level of profitability in the period and we believe that further efficiency improvements we're putting in place will yield better results in the future. The losses from Noa Home, our e commerce business headquartered in Canada were reduced in the quarter and are a thing of the past because the business is now closed as planned. Other gains and increased efficiency and improvements in our P and L have come from our warehouse consolidation. We moved from 27 retail home delivery facilities to 22 at year's end and have begun to see the associated financial benefits.

We plan for further warehouse consolidation in 2025 with no disruption to our customer commitments while maintaining our 4 to 6 week delivery cycles. We've taken bold steps to drive newness and innovation into our business and our organization is energized about 2025. In addition to all the cost cutting, we embarked on an extensive review of our product line last year and began significant makeovers of our assortment. We plan 3 major whole home casegoods collections to hit retail in 2025. The first, the Danish modern inspired Copenhagen collection has been in our retail stores for 6 weeks and is performing very well already.

Two additional collections, Andorra and Newberry, will debut this spring. All three of these collections cover bedroom, dining, occasional and entertainment options and will be transformational in terms of our retail visual merchandising. The investments that we've made in [bassettfurniture.com](https://www.bassettfurniture.com) to continue to change and benefit our business. Still a small percentage of our overall sales, but e commerce revenue is growing and we've had 7 consecutive months of sales increases through the end of 2024. Our investments in the presentation and the user experience are driving traffic and higher e commerce order values, which are up 27% annually compared to last year.

And our in store designers are telling us that consumers are entering the store with specific items in mind based on their interaction with the brand on our

website. In the 4th quarter, we strengthened our marketing program and began communicating more about the price and value of our furniture. Early response indicates this messaging is resonating with customers and price and value will be a focus for 2025. We reintroduced direct mail in our marketing mix in the fourth quarter and it delivered positive returns. We plan to use direct mail more frequently in 2025 to drive retail traffic particularly for major events and new product launches like Copenhagen, Andorra and Newberry.

Approximately 80% of our wholesale revenue on an annual basis comes from one of our dedicated distribution concepts. The latest is the Bassett Custom Studio, which requires the independent furniture retailer to dedicate a prescribed 1,000 square foot footprint to our true custom upholstery program with no requirements of backup inventory. Nine months into this program, we're excited about the progress. With the many frame fabric and design options that True Custom offers in a relatively small space, the dealer can generate a high rate of sales per square foot with no inventory investment beyond the floor samples. The program is working and several dealers have already expanded the square footage dedicated to it.

This inexpensive commitment to the Bassett brand has great potential and we plan to continue to increase the number of studios this year. I also want to mention the pride that our team feels in being named best custom upholstery company in the industry as a result of Furniture Today's annual reader survey. This recognition underscores the accomplishments of so many Bassett teammates to earn the respect of those that really know the furniture business and it reinforces the quality reputation that customers equate with our brand. I will not deny that 2024 in general and the implementation of the restructuring was challenging. We made difficult decisions, but it has changed our mindset to run as a smaller company.

At year end, we had 11% fewer associates than a year ago. Our priority is to continually review our operations to ensure that we are driving efficiency as well as delivering innovation and newness for customers. We are investing in remodeling some stores and we are negotiating leases for 2 new store locations, which are expected to open in late 2025 or early 2026. We don't have a crystal ball on projections for where the housing market or mortgage rates this year will be. As I said earlier, industry data points to similar trends to

last year, but with a leaner operating model and new features to our growth plan, we believe Bassett is well positioned for the future.

On January 16, we announced that our Board approved our regular quarterly dividend of \$0.20 per share and we remain committed to shareholder returns through dividends and opportunistic share repurchases. Now, I'll turn things back over to Mike for more details on our financials. Mike?

Mike Daniel, CFO, Bassett Furniture: Thanks, Rob. In my commentary, the comparisons I will discuss will be the fourth quarter of fiscal 2024 compared to the fourth quarter of fiscal 2023 unless otherwise noted. For the quarter, total consolidated revenue declined \$10,400,000 or 11%, primarily due to a 14% decrease in wholesale sales and an 8.4% decrease in retail sales through our company owned stores. Consolidated gross margins increased 230 basis points due primarily to better margins in the wholesale segment from improved margins in our club level product, coupled with better margins in our domestic upholstery manufacturing operation. Although we're pleased with our very strong consolidated gross margins during the quarter, we do expect a slight moderation during 2025 due to the expectation that we will be more aggressive with pricing on the retail side as Rob mentioned earlier.

We reported consolidated operating income of \$900,000 compared to a loss of \$4,500,000 for the fourth quarter of 2023. However, if you normalize the operating income for both 2024 and 2023 for the special charges, operating income would have been \$2,300,000 or 2.7 percent of sales as compared to \$900,000 or 0.9 percent of sales for 2023.

Now I'll provide information regarding our wholesale operations.

Net sales decreased \$8,300,000 or 14% from the prior year period, due primarily to a 13% decrease in shipments in both the store network and the open market, partially offset by a 22% increase in shipments for Lane Venture. Gross margin for the 3 months ended November 30, 2024 increased 290 basis points over the prior year, primarily due to the expected improvement in the club level business and the improved mix of customers for the Lane Venture operation.

Although SG&A expenses decreased year over year, SG&A expense as a percent of sales increased slightly due to deleverage of fixed costs from lower sales volumes, partially offset by cost reductions from implementing our restructuring plan. Wholesale backlog at the quarter end was \$21,800,000 as compared to \$18,500,000 at the end of both the Q3 of 2024 and the end of fiscal 2023.

Now moving on to our retail store operations.

Net sales decreased \$4,800,000 or 8% from the prior year period. As Rob said, written sales, the value of sales orders taken but not delivered, declined 0.6% compared to the prior year period.

Gross margin for the quarter was essentially flat as improved in line margins were offset by lower margins on clearance goods. As Rob mentioned, we've been aggressively working through unproductive inventory, which was part of our restructuring plan. Although SG&A expenses decreased year over year, again SG&A expense as a percentage of sales increased slightly due to deleverage of fixed costs from lower sales volumes, partially offset by cost reductions from implementing our restructuring plan. Retail backlog at the end of the 4th quarter was \$37,100,000 compared to \$33,300,000 at the end of the 3rd quarter and \$30,900,000 at the end of fiscal 2023. As Rob mentioned, Noah Home was closed by the end of the fourth quarter and we recorded a \$2,600,000 tax benefit for a capital loss associated with the cumulative investment in Noah Home. As capital losses can only be deducted to the extent of capital gains, we will be able to file an amended return for 2022 and use that loss against the large gain that we recorded in 2022 on the sale of Zenith Logistics and recapture part of the cash paid for that year.

Let's cover the balance sheet and capital allocation.

We generated \$6,400,000 of operating cash flow in the 4th quarter. We ended the quarter with \$59,900,000 in cash and short-term investments with no outstanding debt. As Rob discussed, we've made significant progress on the restructuring plan over the back half of the year.

Although savings to date have been slightly above \$1,000,000, expected savings in 2025 compared to 2024 should be between \$7,000,000 and

\$8,000,000. As mentioned in last quarter's report, we reduced our capital outlay in the fourth quarter and closed fiscal 2024 with capital spend of \$5,200,000. The majority of the spending was on retail store openings and remodels. For fiscal 2025, we have projected a range of capital investment between \$8,000,000 and \$12,000,000. This will be dedicated primarily to existing store remodels and the potential store openings that Rob previously mentioned, as well as investments in technology. We continue to pay our quarterly dividend and repurchase shares opportunistically. We spent \$4,900,000 on dividends and \$1,400,000 on share buybacks during 2024. Our goal is to provide good returns to Bassett shareholders.

Our financial condition remains solid and provides us with a platform to service all of our obligations. Now we'll open up the line for questions. Gigi, please provide instructions for doing so.

Gigi, Conference Call Operator: Thank you. Our first question comes from the line of Anthony Lebiedzinski from Sidoti and Co. LLC.

Anthony Lebiedzinski, Analyst, Sidoti and Co. LLC: Good morning, everyone, and thanks for taking the questions. So first, great to see Bassett returning to profitability and maintaining a strong balance sheet. I know you touched on the written sales, so good to see that also relatively improving. Just curious as to what you guys have seen, I guess, since the election. I guess, we've heard from some other companies seeing relatively better trends. Also wondering if you could comment on what you've seen thus far for the 1st 2 months of your new fiscal year whether it's written sales or just overall trends in the business that you're seeing.

That would be great to get an update on that.

Rob Spilman, Chairman and CEO, Bassett Furniture: Okay, Anthony. Good morning. This is Rob. So as we pointed out, it seemed like we got a little brief period of euphoria around Black Friday as we mentioned and that was of course right after the election. Since that time, we would say we've kind of settled back down to where we were to a certain extent.

We own it and now I've qualified that by saying that last year in our fiscal calendar, it was 6 week December and this year was a 5 week month. So we had one less week to deal with. But we were up mid-single digits in December and that's kind of the trend that we're seeing, I'm talking about at retail. And so when I say where we were slightly better, but we're not seeing a sense of euphoria out there at the moment, but a little better.

Anthony Lebiedzinski, Analyst, Sidoti and Co. LLC: Little better sounds good, certainly. So you highlighted Bassett Design Studios. Can you give us an update as to how many of those you have in place now? And what is your expectation for the number you plan to have by the end of fiscal 2025?

Rob Spilman, Chairman and CEO, Bassett Furniture: Well, we now have around 43 or 44 of those things, it changes from day to day, of course, as we get the report in from the field. Honestly, I don't want to say how many we're going to have at year end, but you think about it in 9 months, we've been opening about 5 per month. And I'm not sure we're going to be able to continue that pace, but we are getting a lot of interest in this program and we expect it to grow significantly in terms of the amount of dealers that we have in 2025.

Anthony Lebiedzinski, Analyst, Sidoti and Co. LLC: Got you. Okay. And then you've talked about the true custom upholstery program you guys have had. It sounds like you guys have been certainly recognized for those efforts based on your comment about Bassett being named the best custom upholstery company in the industry as a result of Furniture Today's annual reader survey. Now is this something you plan to highlight more in terms of your marketing messaging, whether it's like you said, direct mail or anything else?

Rob Spilman, Chairman and CEO, Bassett Furniture: I would say in conjunction with the custom studio, Anthony, we've done some trade advertising, which we haven't done in a long time. And I think there's a community of dealers out there and a lot of them think we are a store company that is not interested in their business, let's say. And we're only in about half the states with stores. And so we think there's a lot of opportunity to communicate just how strong this custom upholstery is, which has been a

hallmark of our retail concept for a number of years. So yes, we will be continuing to highlight our competencies on true custom in the stores as always, but we're also going to be a little more aggressive out there in the field and our dedicated distribution opportunities.

Anthony Lebiezinski, Analyst, Sidoti and Co. LLC: Got you. And then my last question before I pass it on to others. So obviously, the gross margin was impressive in the fourth quarter. I know you mentioned that you expect that that to moderate a bit because of pricing. That being said, when housing does recover at some point, how should we think about potential gross margins in the future?

Rob Spilman, Chairman and CEO, Bassett Furniture: Well, we're answering the question from almost an all-time high, I think. So I think I don't see them climbing significantly beyond where we are even if housing comes back. We still want to offer value and we think we can leverage that volume to lower the SG&A and have better operating margins. That's really the plan. We are very focused now given the environment for 2 years on offering good value to our customers.

We think we have, but we really want to start communicating that. So I'd say the gross margin is kind of going to stay in this neighborhood if I had to guess.

Anthony Lebiezinski, Analyst, Sidoti and Co. LLC: That makes a lot of sense. Well, thank you very much and best of luck.

Mike Daniel, CFO, Bassett Furniture: Thanks, Anthony. Thank

Gigi, Conference Call Operator: you. One moment for our next question. Our next question comes from the line of Brian Gordon from Water Tower

Mike McCormick, Analyst, Water Tower Research: Research. Hey guys, it's Mike McCormick

Mike Daniel, CFO, Bassett Furniture: from Water Tower. How are you?

Rob Spilman, Chairman and CEO, Bassett Furniture: Hey Mike.

Mike Daniel, CFO, Bassett Furniture: Hey, we're doing great. Thank you.

Mike McCormick, Analyst, Water Tower Research: Hey, just a little more color on the margin commentary. You talked about a step back, I guess, as we go forward this year. Can you just give us a hint on what that degree might look like?

Mike Daniel, CFO, Bassett Furniture: Yes. I'd say, again, as we alluded to, we think we're going to get a little bit more aggressive. Well, 2 things, get more aggressive on pricing related to retail or in our retail stores as well as making sure that we're moving through clearance goods as quickly as we need to be moving them through. As Rob has said to us many times, inventory does not get more valuable as it sits in warehouses. So we just want to make sure that we're moving that through.

Now that's not going to be that much pressure on the margins. But we are proud of the fact that we did have what we consider to be a record margin, but just not comfortable to say that that's going to be sustainable and particularly with those added pressures on the margin. But again, it's not going to be a drastic shift of any kind.

Rob Spilman, Chairman and CEO, Bassett Furniture: I would add, Mike, that it's similar to Anthony's question. We don't see this trend continuing to rise necessarily, and that's by design. And although, I think, as Mike said, we're going to moderate it, I think, slightly. We're not talking about a huge decline in margin, but we aren't counting on this trend continuing this year, but we don't want it to drop much either. So we're just setting expectations really.

That's right.

Mike McCormick, Analyst, Water Tower Research: Look, understood. Thank you. And then I touch on the natural disasters between the hurricanes and the wildfires, how did you get back in the business?

Rob Spilman, Chairman and CEO, Bassett Furniture: The North Carolina hurricane back in. We had to close our operations down for a couple of days, a few days there in the Hickory area. Also, we have a very strong independent

dealer base in that area in North Carolina. So a lot of our dealers were affected by that and that hurt our incoming business.

As far as the California fire tragedy, we did have one store out there that had to shut down for a few days. But I wouldn't say that it caused a whole lot of upheaval to our operations.

Mike McCormick, Analyst, Water Tower Research: Thank you, yes.

Gigi, Conference Call Operator: Thank you. At this time, I would now like to turn the conference back over to Rob Spilman, Chairman and CEO for closing remarks.

Rob Spilman, Chairman and CEO, Bassett Furniture: Thank you, Gigi, and thank everyone for your interest in Bassett and for your questions. We know that our decisions to right size our cost structure put us on the road to improved profitability. We delivered that in the fourth quarter. We're optimistic that our growth driving initiatives will deliver for customers and shareholders this year. We're excited about our new collections, strengthening our dedicated distribution programs and reaching more consumers through our e commerce site and price/value messaging.

Thank you very much and have a great day.

Gigi, Conference Call Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.