

Bassett Furniture Industries(Q2 2025 Earnings)

July 10, 2025

Corporate Speakers:

- Mike Daniel; Bassett Furniture; Chief Financial Officer
- Robert Spilman; Bassett Furniture; Chairman, Chief Executive Officer

Participants:

- Brian Gordon; Water Tower Research; Analyst
- Anthony Lebedzinski; Sidoti; Analyst

PRESENTATION

Operator: Good day. And thank you for standing by. Welcome to the Bassett Furniture Second Quarter 2025 Earnings Conference Call. (Operator Instructions)

Please note that today's conference may be recorded.

I will now hand the conference over to your first speaker, Mr. Mike Daniel, Chief Financial Officer.

Please go ahead.

Mike Daniel: Thank you Olivia, for the introduction.

Welcome to Bassett Furniture's earnings call for the second quarter of fiscal 2025 ended May 31, 2025.

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. We will be filing our Form 10-Q early this morning and that, too, will be on the website.

After today's remarks, we will open the call up for a Q&A session. We will post a transcript of the call on Bassett's investor website following the conference 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 to or cannot guarantee the accuracy of any forecast or estimate. Nor does it take 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.

Other filings with the SEC describing risks related to our business are available on our corporate website under the Investor tab.

Now I'll turn things over to Rob.

Rob....

Robert Spilman: Okay. Thank you, Mike. Good morning, everyone. And thank you for joining us.

One year ago this quarter, Bassett announced a 5-point restructuring strategy designed to grow business and improve profitability.

We've been aggressively implementing that plan, which included development of a pipeline of innovative products to support our reputation as a company that provides quality craftsmanship in the wholesale and retail channels and custom design services. All of us in the Bassett organization remains focused on executing these initiatives to meet these goals and to reduce costs.

I'm happy to report that our second quarter results have improved like last quarter, despite a very challenging sales environment for our entire industry. Consumers face a historically weak housing market, high interest rates and uncertainty about the impact of trade tariffs on the cost of goods. This lack of confidence makes them very hesitant about investing in home furnishings right now.

We believe that our restructuring program continues to have positive impacts on our results and our future strategy.

We grew consolidated sales slightly, up 1.1% from last year's second quarter. Excluding sales from Noa Home Incorporated which closed in late 2024 consolidated revenue from the ongoing business increased 2.5%. And efforts to reduce our cost structure that began this time last year, coupled with higher levels of operating efficiency in both our wholesale and retail segments delivered \$2.5 million of operating profit or 3% of sales compared to a loss this time last year.

Before I get to our detailed comments for the second quarter, it's important to reiterate how tough the housing and remodeling environment is in 2025. And we don't see that changing for the foreseeable future. Spring is normally the busiest time of the year for housing sales and that activity flows to the home furnishings industry. A recent headline

pointed to data from the National Association of Realtors showing existing home sales edged up 0.8% in May, ending a 2-month streak of declines.

However, that was the slowest pace for any May since 2009.

Affordability remains a drag on housing. And like others, we are watching for some form of stimulus to spur mortgage activity and greater home sales and remodeling activity.

Our strategic plan for this fiscal year was based on a continuation of the tepid housing market that has characterized the past three years. The decisions and the investments we have made on new lines and product launches, expanding e-commerce capabilities and modifying our marketing activities are making a difference. That said, we have had to adjust to the impact of tariffs that depend on our supply chain and more importantly, on consumer confidence in general.

We are somewhat insulated versus others in the industry because almost 80% of our wholesale shipments are manufactured or assembled in our five U.S. factories.

But the fabrics, plywood, componentry and finished goods that we do import from countries like Vietnam and India, have made it necessary to raise wholesale prices 3% to 5% and in the quarter, something that we did not want to do in the current environment.

We've also been successful in working intently with various fabric vendors to mitigate the effects of tariffs on further price hikes.

We're closely watching the outcome of the final trade agreements, and our teams are monitoring the tariff activity daily as these challenges affect future orders and products in transit. The dawning of Liberation Day, April 2nd, represented a direct line of demarcation between the more robust order pace that started the year and the slowness we clearly saw in the second quarter. March sales started off fine but the rest of the quarter was down.

Orders to our combined corporate and licensed store network grew by 9.6%, while our wholesale business from the open market declined by 6.6% and thus netting a 2.7% increase in all wholesale orders for the period.

Our core products led by our True Custom Upholstery with last year's addition of leather, drove most of the year-over-year improvement. Domestic motion and reclining product was also strong.

As discussed last quarter, we recommitted to "whole home" wood collections this year with three new offerings. The first Copenhagen is retailing well and we are very pleased with the reaction to the 35 piece Newberry collection at the April home furnishings market. Newberry will arrive in Bassett stores and independent retailers this fall followed later by the Andorra collection.

Also in wood product, our new domestic Benchmade Hideaway dining program sold very well at wholesale this spring and will begin leaving our factory here in Virginia in July and August.

Bolstered in part by stronger sales in Q1 and Corporate retail deliveries increased by 7.5% and operating performance improved significantly compared to 2024. Written sales in the stores declined by 0.8%. Most of the key performance metrics were static during the quarter, although higher close ratios in the stores kept written sales almost flat while store traffic declined.

Belt tightening from last year and restructuring in our marketing meant that we spent \$1 million less in SG&A investments on \$3.8 million more in delivered sales. The current pace of sales mandates that we continue to closely monitor all expenditures in the retail fleet. We've made progress on turning discontinued "as is" inventory into cash. And while the discounting will modestly affect retail gross margin, this plan is in place for the rest of the year.

Wholesale sales to customers outside of our store network were a mixed bag but ultimately, down by 6.6%. I noted earlier that March was strong and almost all of the decline here occurred in April. The decline was largely due to lower sales in our club level program, particularly with those accounts that generally buy containers directly from our vendors in Asia. There has been a natural hesitancy from these dealers to commit to imported goods in large quantities until greater clarity is attained on the tariff question. Once again, we are looking forward to getting the large product introduction from the April show on the retail floors this fall as we felt we had a particularly strong placements from the market.

We're also encouraged by the progress from investments in our omnichannel model to enhance the retail customer experience. Written sales at [bassettfurniture.com](https://www.bassettfurniture.com) were up 31% in the second quarter versus last year despite the housing issues, and this follows an increase of 36% in Q1. While website traffic was flat for the quarter, we have much higher levels of conversion and we're reaching customers where we don't have physical stores. We continue to tweak the technology drivers to improve traffic, the user experience and our site conversions.

We made changes to our marketing mix in the second quarter to drive brand awareness, introduce new product lines and to emphasize our custom design services. Last year, we relied exclusively on digital marketing for the quarter. This spring, we had success in using direct mail for the launch of the Copenhagen line and it is now part of our marketing strategy for the remainder of the year. We tested spot TV in key markets with mixed results. We brought back our private sale to key customers three weeks ahead of the public Memorial Day sales event, allowing them to get ahead of the rush and have more opportunity at inventory. This strategy effectively pulled our Holiday business forward and resulted in a slight increase in written business for the month of May. Promotional events like July 4th are key to driving traffic, which was weak through June.

Our new Bassett Custom Studio program in the open market grew by double digits as we added seven new retail stores.

We also grew our business with the interior design community and are working hard to become a bigger provider to the design channel that continues to grow in importance to the entire industry.

We are moving ahead with architectural plans to open stores in two new markets, Cincinnati and Orlando. We plan to start construction this fall in both locations and expect to have these stores open in the first quarter of fiscal 2026.

Our Concord, North Carolina corporate store has been closed since April for remodeling and will reopen in October.

Our Board of Directors will consider our regular quarterly cash dividend of \$0.20 per share next week. Dividends augmented by opportunistic share repurchase remains a key piece of our capital returns to shareholders.

Now I'll turn it back over to Mike for more details on our financial results.

Mike....

Mike Daniel: Thanks, Rob.

In my commentary, the comparisons I'll discuss will be the second quarter of fiscal 2025 compared to the second quarter of fiscal 2024, unless otherwise noted.

As Rob previously noted, total consolidated revenue increased \$938,000 or 1.1%. And again, excluding sales from Noa Home Inc. which closed in late 2024, consolidated revenues increased 2.5%.

Consolidated gross margin at 55.6% represented a 310 basis point improvement over the prior year as the company recorded \$2.7 million of additional inventory valuation charges in the prior quarter. Excluding those charges, gross margin would have been essentially flat. Selling, general and administrative expenses were 52.7% of sales, 330 basis points lower than the prior year reflecting benefits from the prior year restructuring program and ongoing cost optimization activities. Operating income was \$2.5 million or 3% of sales as compared to a prior loss of \$8.5 million, which included \$5.5 million of asset impairment charges and the additional inventory valuation charges previously mentioned. Diluted earnings per share were \$0.22 versus a loss of \$0.82.

Now let me cover more details on the wholesale operations. Net sales increased \$1.6 million or 3% over the prior year consisting of a 12.6% increase in shipments to our Bassett retail store network, partially offset by a 2.6% decrease in shipments to the open market and a 22% decrease in lane venture shipments. This was primarily related to timing of shipments for a significant customer. Gross margins increased 260 basis points

over the prior year, excluding the \$1.7 million of additional wholesale inventory valuation charges in the prior year period. Gross margins would have decreased by 70 basis points, primarily due to the prior year reduction in the warranty and returns reserve from improved experience and administration of warranty and returns claims. SG&A expenses as a percentage of sales decreased 190 basis points primarily due to lower bad debt expenses, coupled with the benefit of cost reductions implemented during the second half of fiscal 2024. Wholesale backlog was \$18.4 million as compared to \$21.8 million on November 30, 2024, and \$19.4 million at June 1, 2024.

Now moving on to the retail store operations. Net sales increased \$3.8 million or 7.5%, and written sales, the value of sales orders taken but not delivered, declined 0.8%. Gross margin declined 50 basis points. Excluding the \$500,000 of additional inventory valuation charges in the prior year period, gross margins would have decreased by 140 basis points due to lower margins for both in-line and clearance goods. As Rob mentioned, we are more aggressive in cycling through unproductive inventory. SG&A expenses as a percentage of sales decreased 580 basis points due to several factors: improved efficiency gains in warehouse and delivery operations, lower advertising and marketing expenditures and overall lower operating costs. Retail backlog was \$34.1 million compared to \$37.1 million at November 30, 2024. And \$31.5 million at June 1, 2024.

Our liquidity position remains solid.

We generated \$7 million in operating cash flow during the quarter and ended with \$59.8 million of cash and short-term investments and have no outstanding debt.

We've reduced our projected range of annual capital investment in our business to between \$7 million and \$9 million, primarily to cover remodels of existing stores, the ongoing investments in technology including e-commerce and the two new store openings Rob mentioned.

We continue to pay our quarterly dividend and repurchase shares opportunistically. We spent \$1.7 million on dividends and \$400,000 on share buybacks in the second quarter. We remain committed to delivering shareholder returns through dividends and when appropriate share buybacks.

Now we'll open up the line for questions.

Olivia, please provide instructions to do so.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Our first question is coming from the line of Brian Gordon with Water Tower Research.

Brian Gordon: Congratulations on what I think has been good quarter in a very tough environment.

I guess my first question is with the seven new design studios signed up, where does that put you right now in terms of the total? And where do you think that might land by end of year?

Robert Spilman: Brian, this is Rob. That puts us, I think, at 54 of these. Boy, that's a good question in terms of the potential of these. I really believe that the pace will -- that we just revealed will be reflective of the ongoing pace. So you can extrapolate from there. The really good news on this thing is that, well one, it's not a steep barrier of entry for the dealer, as we've said before. Also once he makes that initial investment of the floor samples, you really -- all the additional inventory purchases are sold orders. It really leverages our service capabilities and the fact that we can get these custom orders out of the factory so quickly. So if the salespeople that have to wait to get paid on delivered sales, they don't have to wait on this forever because we can get it out quickly. So without a big inventory investment and with a lot of turn on this, we feel really good about how this thing is going to play out over time. And yes, we'd love to have more of them. But more importantly is the monitoring of the success and the performance of the ones that we've opened because if we're successful there, then you've got something that will stand the test of time. And we do a lot of work on just gauging how these guys are doing, the ones that have opened, and that's what is really exciting to us because it's working.

So it's going to be something that we talk about for some time. And that pace of 6, 7, 8 per quarter, I think, would be attainable and one that, at least for the foreseeable future, we can execute on.

Brian Gordon: Thank you for that update. And you alluded to what I was going to ask for my follow-up. What kind of metrics can you share about how these design studios are actually maturing and what that actually looks like over time?

Robert Spilman: Well we obviously look at how much volume they are producing from that 1,000 square foot footprint. And so we haven't shared that externally. And we haven't boiled that down because you are inside someone else's furniture store and sometimes getting the data that is a little more difficult. But let's just say that our dealer base is pleased with that, and we're pleased with what's happening. We have been talking about a more granular set of metrics that we can trumpet out and that we can hopefully attract new dealers with. And we're in the lab right now working on that.

Brian Gordon: Great.

If I can get in maybe one more question before turning it over. The last several markets, you've definitely been highlighting the design trade as a major initiative. Could you talk about how that's going? And then maybe as a quick follow-up to that, -- has there been

any differences that you've seen since the tariffs with the design trade side of the business versus the stores and design studios and third party?

Robert Spilman: Yes. We are just scratching the surface on the design trade. And our focus has been on retail stores and on our on our dedicated distribution, our galleries and the custom studios we just talked about. And appropriately so, we've got capital invested in the store network and all of those things. And I would say that we are somewhat late to the party on this whole migration of the business to the design trade, which according to the officials down at High Point, over 60% of the attendees now are from designers. This is a big shift in the higher end, and there's a whole section of talent down there now that is dedicated to the design trade. So what's exciting for us is that what we do every day in the stores and our dedicated distribution, in other words, make things one at a time and on a custom basis quickly. We do a lot of things that designers use every day. So the progress is always slower than we want. I will say the sales in that trade were up double digits for the quarter. So that's good. But -- we are doing things with our systems with management and bringing on a couple of new folks to get really noticed in this area. So stay tuned on that because we really think we can grow that channel.

As far as the tariffs, I don't think the tariffs have been particularly impactful to the design trade. As a matter of fact, I would say, less so than retail. The retail operator is so cost-conscious with such a tight set of operating metrics, we don't see that as much in the design trade. The design trade needs to have one great product line and great service and communication. Those are kind of the basic tenets of being successful there. But they are not slicing that onion down to the penny like we see in retail, which is tough on the retail side. So I don't think the tariff has really impacted the design business very much.

Operator: Our next question is coming from the line of Anthony Lebiezinski from Sidoti.

Anthony Lebiezinski: Great to see you guys reporting a year-over-year sales gain even in a tough environment. So first, just a follow-up about the shipments that you guys talked about. You had a nice increase in shipments to your Bassett stores and a decrease in the open market. I think Mike, you said that some of it was timing related to a significant customer. So should we see a reversal of that timing in the third quarter? Or how should we think about that?

Mike Daniel: Let me just clarify, the significant customer that I was referring to related to Lane Venture shipments only, not the rest of the open market. We just wanted to put some color beside the fact that we had a 22% decrease in Lane Venture.

Anthony Lebiezinski: Got you.

Robert Spilman: And we saw that as somewhat of an anomaly based on the orders we received at Lane Venture in the second quarter, which were much, much better than a 22% decline. So anyway, Mike and I debated about whether we should include that because it is somewhat large. But since we have been reporting on Lane Venture and

pulling that out, he went out and we did it. So the question is, are we going to see a correction in the open market? And it has improved somewhat since then since the second quarter, even though business remains very tough. And what I said in my remarks, Anthony, the biggest real factor, not including Lane Venture in the quarter with the open market was Club Level. We do 40% of our business in Club Level through container directs, and the rest we warehouse and they buy one at a time. And we really had a fall off in the container direct Club Level business in the quarter. And a lot of these guys were going, well we're just going to wait and see how these tariffs play out before we commit to having goods on the water. I think it was 46% on April 2nd for Vietnam, which obviously that's changed since then.

Now look, it's tough out there for the open market guys that don't carry Club Level. These independent retailers are not immune from this. And so we have to fight like the dickens to keep this channel growing, and we feel pretty good about where we're headed with that and better, hopefully, than we just showed you.

Mike Daniel: And Anthony, if you remember Rob's comments on the pace during the quarter, he spoke about Liberation Day as the demarcation and how April was really soft. And I think it was -- was that related solely to Club Level, Rob?

Robert Spilman: Yes. Well, primarily, yes.

Mike Daniel: So the pace of the business in May, while not great, was not like it was in April, and that's kind of carried over into the third quarter.

Anthony Lebedzinski: Right.

Okay. So May was relatively better. So that's encouraging to hear.

Now in terms of the plans for discounting that you talked about a bit here. So how should we think about the impact on margins overall, I mean you had a slight sequential decline from first quarter to the second quarter, will we see more of that type of a margin decline sequentially in the third quarter? Or just directionally, maybe you can help us out as how to think about that.

Robert Spilman: Well we've been trying to model that internally, Anthony, because we really want to get this inventory as clean as we can. And so part of that sequential -- and we're talking about the retail price margin now. Not the consolidated. So ultimately, that affects the consolidated, but it's not the wholesale gross part.

So, yes, we did have a decline. And we don't think we will see a lot more detriment to moving these goods out of some of these retail warehouses than we've seen, but it could be, it's hard for me to just give you a number. But I don't think it's going to be significant, but it could affect it slightly.

We're running a clearance event right now and we did a direct mail piece. As a matter of fact, it came to my mailbox at the house last night. So we're running that and we think it's a prudent exercise to be clean and have a good balance sheet.

Mike Daniel: Keep in mind we're trying to turn inventory into cash. And as Rob said it, clean means actually more cash on the balance sheet.

Anthony Lebiezinski: That makes a lot of sense, certainly. And then looking at your store plans, so you're looking to do Cincinnati and Orlando. Beyond that, how do you guys think about the store base, let's say, 2, 3, 5 years from now? I mean like how do you guys see the store base going forward? And kind of any particular markets that you would like to be in that you're not in already?

Robert Spilman: Sure. There are. And we look at this a lot of ways.

One, where do we have stores where we can leverage existing investments in infrastructure and distribution and all that kind of stuff. And so that certainly is a factor. There are markets, I got to admit, that are fairly bereft of opportunities for us to sell furniture except with the store or through the design trade, given the demise of the independent retailer that we are seeing around the country and have seen for some time. So we look at those markets like, okay, if we got an open market strategy here, who are we going to sell? And I've made a couple of trips lately, and you go around and there's not a whole lot of opportunities in some of these markets. So we look at that. We also look at the executional risk, the capital requirement and the environment we're in.

So we're conservative and appropriately so. So I think if you look at 2, 3, 4 stores a year for us, that's a pace that we can absorb. Four is a lot, two is not that many. So somewhere in between. But it's not like we're looking at a 20-store rollout or anything like that, and we won't be.

Now in the meantime we're trying to find the good -- the guy who sells nice furniture and there has been a huge migration to the lower end in this industry. So there is just a ton of low-end furniture being sold out there, what we call low-end anyway. So the guys who sell nicer furniture are fewer and farther between and our guys are making a major presentation to one of those people this morning as we speak. And so we can't run all over the place lickity split and do all these stores.

So these independent dealers who sell nice furniture are important to us. We look at that too. It's kind of a Ouija board of all this stuff and -- but the good thing about the design channel is you can really do that anywhere. And there are designers out there in every market, a lot of them. Now some of them are kind of inconsequential and work out of their dining room table and then other ones are more substantial. You've kind of got to weed through all that.

But that's how we look at it. I hope I answered your question, but it's not an easy answer. But we -- as a matter of fact, we've got a Board meeting next week, and this is the big

topic as we look at where we go and how we serve each market, and it's an ongoing process.

Mike Daniel: But Anthony, I think we're saying, we do want to grow the number, and Rob correct me if I'm wrong here, but grow the number of stores over time. So while we're saying two to three stores, I think we're saying to the three net stores.

Robert Spilman: Yes. Yes. No. We definitely want to do that.

Thank you, Anthony. Brian, and everyone else that has been on the call. And we announced our restructuring a year ago, and we think we've set the Company on the right course to meet the challenges that we've already talked about with housing, consumer confidence and tariff uncertainty.

We are pleased with our progress in the second quarter.

We're optimistic that the investments we've made in our new product lines and our emphasis on integrating Bassett further into the interior design community will provide competitive advantages for the future.

We continue to manufacture almost 80% of our product here in the U.S., remain intensely focused on operating efficiencies and cost reductions to deliver for our customers and shareholders.

Thank you for your interest in Bassett Furniture.

Operator This concludes today's conference call. Thank you for your participation.

And you may now disconnect.