

Crown Crafts, Inc.

First Quarter FY 2025 Conference Call

August 15, 2024 at 9:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**John Beisler** – *Investor Relations*

**Olivia Elliott** – *President and Chief Executive Officer*

**Craig Demarest** – *Vice President and Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Hello. Good day, and welcome to the Crown Crafts, Inc. First Quarter Fiscal Year 2025 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to John Beisler, Investor Relations. Please go ahead.

### **John Beisler**

Thank you, Dave, and good morning, everyone. We appreciate you joining us for the Crown Crafts First Quarter Fiscal 2025 Conference Call. Joining me this morning are Crown Crafts' President and CEO, Olivia Elliott, and the company's CFO, Craig Demarest.

Crown Crafts issued a press release yesterday afternoon regarding their first quarter 2025 financial results. A copy of this release is available on the company's website, [crowncrafts.com](http://crowncrafts.com). The company's Form 10-Q was also filed yesterday.

During today's call, the company will make certain forward-looking statements, and actual results may differ materially from those expressed or implied. These statements are subject to risks and uncertainties that may be beyond Crown Crafts' control. The company is under no obligation to update these statements. For more information about the company's risk factors and other uncertainties, please refer to the company's filings with the Securities and Exchange Commission. Finally, I would like to remind you today's call is being recorded, and a replay will be available through the company's Investor Relations page.

Now I'd like to turn the call over to President and CEO, Olivia Elliott.

### **Olivia Elliott**

Thank you, John. Good morning, everyone. Our first quarter fiscal '25 results were impacted by the prolonged inflationary pressures facing consumers limiting their discretionary income. Excluding the costs related to the closure of our UK subsidiary and acquisition-related costs, our performance for the quarter was generally breakeven.

The most recent consumer survey provided a mixed outlook with consumers feeling slightly more confident about near-term prospects with concerns about inflation, the job market, and a potential recession ahead. There is growing sentiment about potential rate cuts from the Fed in the remainder of the year and into 2025 which would bring some measure of release to consumers through lower credit card interest rates which impact our lower income customers the most.

We did see some encouraging developments in the quarter including the performance of our bedding business and the reduction of our debt levels with cash provided by operations. Finally, we purchased the assets of Baby Boom Consumer Products last month. This is a very exciting opportunity for the company, and I'll speak more about this later in the call.

With that, I'd like to turn it over to Craig to cover the financials in more detail.

**Craig Demarest**

Thank you, Olivia, and good morning, everyone. Net sales for the first quarter of 2025 were \$16.2 million compared with \$17.1 million in the prior year quarter. The decrease is primarily due to a major retailer reducing inventory levels and the loss of a program at another major retailer.

Gross profit for the quarter was 24.5% of net sales compared with 27.7% in the first quarter of fiscal 2024. The decrease in gross profit is primarily related to increased warehouse costs and the timing of purchases which caused an unfavorable change in the absorption of costs into inventory. Marketing and administrative expenses were \$4.3 million compared to \$4 million in the prior year quarter. The current year quarter includes \$244,000 for the closing of Manhattan Toy UK subsidiary and \$116,000 in costs associated with the Baby Boom acquisition. Net loss for the quarter was \$322,000 or \$0.03 per share compared with net income of \$366,000 or \$0.04 per share in the prior year.

Turning now to our balance sheet, cash and cash equivalents at June 30<sup>th</sup> totaled \$1.1 million compared with \$829,000 at the end of fiscal '24. Inventories at the end of the quarter were \$30.6 million compared to \$29.7 million at the end of fiscal '24 and \$37.7 million at the end of the first quarter of the prior year. Our long-term debt at the end of the first quarter of fiscal '25 was \$1.5 million compared to \$8.1 million at the end of fiscal 2024. This decrease is primarily related to the collection of fourth quarter fiscal '24 receivables coupled with lower than planned inventory purchases during the current year quarter.

Regarding the acquisition of Baby Boom, we paid \$18 million to the assets of the company subject to customary working capital adjustments. We financed the transaction through a combination of an \$8 million term loan repayable monthly over four years and additional borrowings under our revolving line of credit. The term of the line of credit was extended by one year to July 2029, and we increased its borrowing capacity from \$35 million to \$40 million.

Finally, our quarterly dividend of \$0.08 per share offers an annualized yield of 6.7% based on yesterday's closing price per share. We continue to believe our dividend is a key component towards offering long-term returns to our shareholders.

Now I will turn the call back over to Olivia for additional comments.

**Olivia Elliott**

Thank you, Craig. Before I get into our purchase of Baby Boom, let me provide an update on a few other matters. We continue to receive positive feedback on new product development in Manhattan Toy, which the acquisition in March 2023 expanded our distribution channels and cross-selling opportunities. As part of continuous management of our cost structure, we decided to close its GK subsidiary at the end of June 2024. We continue to evaluate options for a future warehouse location to reduce our lease expense. This effort likely will continue through the rest of fiscal 2025 and into next fiscal year.

Now let me turn to our acquisition of Baby Boom. We are very excited about the opportunity to add Baby Boom's products and licenses to our lineup. The acquisition enhances our toddler bedding business with some very popular licensed brands including Bluey, Ms. Rachel, and Paw Patrol. It also adds diaper bags to our product offering. The diaper bags are sold under both company brands and under a license from Eddie Bauer. There will be some expenses in the near term as we move the Baby Boom inventory from a 3PL in Ontario, California to our existing warehouse in Compton. We have additional storage space in a temporary facility and moved some capacity inventory from California to our Eden Valley, Minnesota warehouse, but the acquisition is expected to be immediately accretive to earnings.

As we work through the remainder of calendar 2024 and into 2025, we will continue to focus on optimizing our cost structure and developing products that position our brands to capitalize when the overall

macroeconomic picture improves. I would like to thank our team for their efforts and our customers for their continuing support. We look forward to updating you on our progress throughout the year, and thank you our shareholders, for your continued support.

With that, I'd like to open up the line for questions. Dave.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If, at any time, your question has been addressed, and you would like to withdraw your question, please press star and then two. At this time, we will pause momentarily to assemble our roster. Our first question comes from Doug Ruth with Lenox Financial. Please go ahead.

### **Douglas Ruth**

Good morning. I appreciate the details that you provided. With the Baby Boom toddler bedding, which of the brands do you think has the most opportunity? Maybe you could tell us why.

### **Olivia Elliott**

Meaning the licenses?

### **Douglas Ruth**

Yes. So, the license with the bedding.

### **Olivia Elliott**

So, they have some very popular licenses right now. They have Bluey, which is a really, really popular, probably the most popular one right now, Cocomelon, which has been popular for quite some time, and then we are really excited about some of the YouTube brands. We think Ms. Rachel has a good opportunity. The inventory is not in yet. It's a new license that had been signed right before we did the acquisition, and so we are waiting on the inventory to come in, but we think that's going to be a hit.

### **Douglas Ruth**

What makes Bluey popular?

### **Olivia Elliott**

It's a television show that today's kids are just very excited about. He is a cute little puppy dog.

### **Douglas Ruth**

Okay. Very good, and then could you talk about the diaper bag and how big of an opportunity you think it might be?

### **Olivia Elliott**

Right now, diaper bags, they're probably about 40% of the acquisition sales. We do think that we have an opportunity to grow diaper bags and some other—right now, it's mainly in Walmart and Target. We think we have an opportunity to grow that across other retailers, and we also think that we have an opportunity maybe in specialty stores and to take that internationally.

### **Douglas Ruth**

Okay, and then could you give us a little bit more detail about the feedback that you are receiving about the product development with Manhattan Toy?

**Olivia Elliott**

So, the big product launches happen at some of the gift shows that primarily happen during the summer, and so in June, we showed at one of the major gift shows, and we introduced the new line of Wimmer, which is the baby, the true infant 0 to kind of 9 to 12-month products, and they were just really excited about those, and the specialty stores are really pushing us to go ahead and get that inventory in so that they can start purchasing it.

We also are working on updating the Stella Doll collection, and so the initial feedback on that is very good.

**Douglas Ruth**

Very good, and then can you explain a little bit more about what happened in the United Kingdom and the decision to close the Manhattan Toy subsidiary there?

**Olivia Elliott**

I mean, so Sassy Baby already had international distribution, and they do primarily through distributors, whereas the Manhattan Toy kind of handled those retailers direct, and so as we looked at those two models, it feels like the distributorship model works the best, and so we were able to close that office, cut down those expenses. We had three employees there, and we are replacing it with two employees in the US.

**Douglas Ruth**

Okay, and then are you thinking that the final decision about the warehouse, do you think would that be made—is it possible still for fiscal 2025, or do you think that would be made sometime in fiscal 2026?

**Olivia Elliott**

I think we will have narrowed down to one or two locations or at least not necessarily the exact address, but I think we'll have narrowed down to the city locations by the end of fiscal 2025.

**Douglas Ruth**

That's encouraging. I just wanted to say that I'm optimistic about the future of the company, and I want to thank you for answering my questions.

**Olivia Elliott**

Thank you, Doug.

**Operator**

The next question comes from Josh Peters with Morgan Dempsey. Please go ahead.

**Josh Peters**

Good morning, Craig. Good morning, Olivia.

**Olivia Elliott**

Hi, Josh.

**Josh Peters**

Yes, I too, am very excited about the Baby Boom acquisition, and since I still have relatively young children in the house, I kind of get the Bluey thing compared to some of what I've seen over the last 15 years for small child entertainment. Bluey is much less likely to drive its parents absolutely insane through repeated exposure. I realize we're not the target audience there. That's always an important point.

I have just a couple of questions. One, I was very happy to see the bedding line items start to turn around in the quarter, and obviously, you've talked about some very promising feedback and potential growth for Manhattan Toy. I am curious about what, if you're able to give me some sense, of what the Manhattan Toy contribution to sales in the quarter was because the quarter was pretty soft on that line item.

**Olivia Elliott**

Actually, I don't have that number broken out right now. I can tell you that where it was soft was in the bibs side of the business. We mentioned that there was a loss program that impacted the sales and that was the bibs program at Target because Target decided to take that entire program direct source. So they are sourcing that themselves.

**Josh Peters**

Okay, but that affects more your pre-existing business than Manhattan Toy. Is that a fair characterization?

**Olivia Elliott**

Correct.

**Craig Demarest**

Yes.

**Josh Peters**

Okay, Okay. Yes, I'm just trying to get a sense of some of the discrete contributions from different parts of the business, and you mentioned also a major retailer reducing inventory. That's been a story here for a while. Do you feel like the customer is now comfortable with their level of inventory, and we are going to at least get the benefit of what's actually being sold at the cash registers?

**Olivia Elliott**

Yes, well, we know what's being sold at the cash registers, and we can see that this particular customer is not buying to the POS. Just when we think the wheels are on the bus and the inventory levels are back to normal, this happens, and so I would like to say that they are purchasing back to the POS, but I'm not sure that they are. It seems very erratic right now. One week they're purchasing to POS, and the next week, they're not.

**Josh Peters**

Okay. Well, I suppose everybody is still dealing with the volatility associated with the interesting things of the last three, four years here. On gross margin, I see the pressure there and just trying to get a little bit better handle on how that is working its way through. So, when you referred to timing of purchases, is this a disproportionate piece of high-cost inventory from perhaps a year or two ago when shipping costs were really high? Obviously, we've had the increase in the rent in the Compton facility. Just trying to get a sense if we are absorbing those costs now finally through the P&L, and we can see some margin improvement from here?

**Craig Demarest**

Yes. The margins are mostly impacted by the additional warehousing costs and the allocation of overhead between inventory and cost of sales, and all of that is kind of based on purchases, and we had a lower than we planned or lower than expected purchases during the first quarter, which wound up with, like we said, an unfavorable absorption of the cost into the balance sheet that has to run through the P&L. So, that can fluctuate from quarter-to-quarter. If you look at the prior year first quarter, it was a favorable

impact to margin. So, the combination of the two from prior year and the current year made it look a little more pronounced than maybe it really is.

**Josh Peters**

Okay. Well, that's really a good perspective just to understand the accounting process associated with some of that. Last question relating—well, there's is a couple I suppose in here, questions relating to the Baby Boom acquisition. Are you expecting to file an 8-K that will have some financial history for Baby Boom and the pro forma financial statements?

**Craig Demarest**

Yes, we will. We'll file their one-year historical financial statements accompanied by pro forma financial information.

**Josh Peters**

Okay. Do you have a sense of when that's likely to be filed? I suppose there's delays associated with actual accounting.

**Craig Demarest**

I would look for it around the 1<sup>st</sup> of October.

**Josh Peters**

Okay, and from that, I'll certainly look forward to actually getting the filing, but you paid \$18 million for the business. In very rough terms, are you able to break that down between net physical assets associated with the business as opposed to what you're paying for goodwill and intangibles?

**Craig Demarest**

Yes. I mean we disclosed in the press release that it is going to be adjusted to the extent that the working capital differs from the \$6.5 million, and we are not buying the underlying equity of the company, and we're not buying a whole lot of PP&E or a plant facility or anything like that. So, it will be the difference between what we paid and the working capital, and that will be allocated over the next months. We have a third-party who does evaluation of the intangibles, licenses, brands, and the like.

**Josh Peters**

Okay. So, subject to adjustments as the business continues to operate here, \$6.5 million is the net tangible asset bogey, so to speak?

**Craig Demarest**

That was the estimate at the acquisition date. We still have, I don't know, maybe another week or two, before the seller has to provide us with an actual accounting close as of the acquisition date, but that should be coming in the next week or so.

**Josh Peters**

Okay. Alright. Well, I'm sorry to be getting into some pretty small bore things there, but you've already given me quite a good education over the years on the big picture for the business, and really looking forward to seeing the growth of the business with the latest acquisition, very optimistic. Thanks.

**Olivia Elliott**

Thank you.

**Operator**

The next question comes from Doug Ruth with Lenox Financial. Please go ahead.

**Douglas Ruth**

I wanted to ask a follow-up to sort of Josh's question. With the sales from Manhattan Toy, it seemed like when you did the last earnings call, you indicated that perhaps the revenue might grow 7.5% to 10% in this fiscal year. I was wondering if you have an update. Do you have a projection as far as what kind of growth you might get from Manhattan Toy this fiscal year?

**Olivia Elliott**

We do not, and I guess I don't recall. We typically don't provide forecasts, so I'm trying to figure out where the 7% to 10% came from.

**Douglas Ruth**

Well, you had said that initially you thought that the revenue would be higher in the first year of operation, and then you made some projections as far as how long it might take for you to get back to the original projection.

**Olivia Elliott**

Right, I think that time frame is two to three years out before you get to what we initially forecasted.

**Douglas Ruth**

Yes. So, I took you took out that number, and then I just calculated it, and that's what it appeared to be, 7.5% to 10% growth per year for the next like three years. So, I was just—do you think there will be revenue growth from Manhattan Toy in this fiscal year?

**Olivia Elliott**

We really don't make those forecasts. I hate to do that.

**Douglas Ruth**

No, I understand. Just a question I thought should be asked, and I appreciate you considering it.

**Olivia Elliott**

Alright. Thank you.

**CONCLUSION****Operator**

This concludes our question and answer session. I would like to turn the conference back over to Olivia Elliott for any closing remarks.

**Olivia Elliott**

Thanks, Dave. Thank you for your continued interest in our company. We will participate in the Three Part Advisors Ideas Conference on August 28<sup>th</sup>, and our presentation will be available on our website. We look forward to speaking with you again when we report our second quarter results in November.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.