



## Bassett Furniture Industries, Inc. (BSET)

**3Q:F21 EPS A Penny Above Our Forecast; Fine-Tune F2021 And F2022 EPS Estimates; Roll Out Initial F2023 EPS Estimate Of \$2.37; Maintain Moderately Risky Rating, \$36 Price Target**

	F2020	F2021E		F2022E		F2023E	
		OLD	NEW	OLD	NEW	OLD	NEW
Feb.	\$0.12	\$0.40A		\$0.48			\$0.57
May	(1.23)	0.60A		0.57	0.54		0.67
Aug.	0.22	0.30	0.31A	0.41	0.40		0.48
Nov.	0.65	0.54	0.53	0.56	0.58		0.65
EPS (FY)	(\$0.23)	\$1.84		\$2.00	\$1.99		\$2.37
P/E (FY)		9.9x		9.2x			7.7x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. Fiscal year ends on the last Saturday in November. \*Estimated net cash per share includes operating lease obligations through F2023. F2020-F2023E include \$0.06-\$0.07 of annual stock-based compensation expense. 2Q:F20 excludes \$0.81 of non-recurring charges (mostly asset impairment). Sum of quarterly results may not equal full-year total due to rounding and/or changes in the diluted share count. BSET is included in the Russell 2000 Index. NC=Not Covered by Sidoti & Co., LLC. NM = Not Meaningful

Year	F2014	F2015	F2016	F2017	F2018	F2019	F2020	F2021E	F2022E	F2023E
Rev.(Mil.)	\$340.7	\$430.9	\$432.0	\$452.5	\$456.9	\$452.1	\$385.9	\$481.0	\$483.5	\$497.1
GAAP EPS	\$0.87	\$1.90	\$1.46	\$1.70	\$0.77	(\$0.19)	(\$1.05)	\$1.84	\$1.99	\$2.37

**Description:** Bassett Furniture Industries, Inc. (www.bassettfurniture.com) is a vertically integrated manufacturer, importer and retailer of high-quality, upper-mid priced home furnishings. At the end of 3Q:F21, Bassett operated 97 retail stores (63 company-operated and 34 licensee-operated) that sell custom-order furniture. In addition, BSET operates a logistics operation called Zenith. Headquarters are in Bassett, VA.

- BSET reported 3Q:F21 EPS of \$0.31 (we expected \$0.30), an increase of 41% from a year ago as revenue was up 30% to \$118.9 million (we estimated \$119.0 million) and the operating margin increased 80 basis points to 3.8% (we projected 3.6%).**
- Management noted strong Labor Day sales and we also point to the 43% year-over-year increase in customer deposits as a tangible sign of solid underlying demand.**
- On the other hand, BSET is not immune to the various ongoing supply chain constraints and inflationary pressures, which are being offset by multiple rounds of price increases.**
- As we fine-tune our underlying projections, we now estimate F2021 EPS of \$1.84 and F2022 EPS of \$1.99. We also roll out our initial F2023 EPS estimate of \$2.37 as we expect a revenue increase of 3% and a "normalization" of supply chain issues.**
- In our view, BSET will maintain a solid balance sheet with zero bank debt. As we see it, average annual free cash flow per share of \$2 (between F2021 and F2023) will likely be used for cash dividends and share buybacks.**
- We maintain our \$36 price target, which is now based on 15x our initial F2023 EPS estimate of \$2.37. (Previously, we valued BSET at 18x our former F2022 EPS estimate of \$2.00.)**
- We maintain a Moderately Risky rating on BSET shares.**

**3Q:F21 EPS increased 41% to \$0.31.** We expected EPS of \$0.30; as per FactSet, the consensus EPS projection was \$0.31. Total revenue of \$118.9 million was a 30% jump from the year-ago quarter as furniture sales were up 31% to \$104.9 million and Zenith (logistics segment) revenue rose 25% to \$14.0 million. We expected total revenue of \$119.0 million versus the consensus projection of \$119.5 million. The consolidated gross margin of 56.0% was down 200 basis points from 3Q:F20 mainly due to higher raw material and inbound freight costs, partially offset by improved fixed cost leverage; we expected 55.7%. However, with improved SG&A expense leverage, the operating margin expanded 80 basis points to 3.8%; we expected 3.6%. Note that improved operating income in the furniture segment (both

**NR**

Price Target: \$36

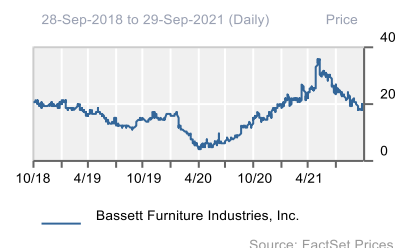
Price: \$18.23

Risk Rating: M

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### Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$180
Enterprise Value	\$265
52-Week Range (NASDAQ)	37-14
5-Year EPS CAGR	16%
Avg. Daily Trading Volume	91,000
Shares Out (Mil)	9.910
Float Shares (Mil)	9.219
Insider Ownership	5%
Institutional Holdings	76%
Annualized Dividend	\$0.52
Dividend Yield	2.7%
FCF Per Share (F2023E)	\$2.27
FCF Yield (F2023E)	12.5%
Net Cash Per Share (F2023E)*	(\$4.97)
Price to Book Value	1.2x
Return on Equity (F2023E)	12.4%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	4.1%
Short Interest Days To Cover	5.9
Russell 2000	2,214
Russell 2000 – Last 12 Months	47.9%
BSET – Last 12 Months	41.3%



wholesale and retail) was partly offset by a nearly \$500,000 operating loss at Zenith versus a segment operating profit of \$1.0 million a year ago) due to increased wages and higher costs for leasing of several hundred trailers.

**Exhibit 1: Bassett Furniture Industries, Inc. Results Variance Analysis**

in thousands of dollars except per share amounts	3Q:F21 Actual	3Q:F21 Estimate	Variance	% Variance	3Q:F20 Actual	% Y-O-Y Change
Revenue-furniture	\$ 104,870	\$ 105,132	(\$262)	-0.2%	\$ 80,341	30.5%
Revenue-logistics	14,036	13,864	\$172	1.2%	11,218	25.1%
<b>Total revenue</b>	<b>\$ 118,906</b>	<b>\$ 118,996</b>	<b>(\$90)</b>	<b>-0.1%</b>	<b>\$ 91,559</b>	<b>29.9%</b>
<b>Gross profit</b>	<b>66,643</b>	<b>66,329</b>	<b>314</b>	<b>0.5%</b>	<b>53,141</b>	<b>25.4%</b>
gross margin (%)	56.0%	55.7%	0.3%	0.6%	58.0%	
<b>Operating income</b>	<b>4,490</b>	<b>4,264</b>	<b>226</b>	<b>5.3%</b>	<b>2,747</b>	<b>63.5%</b>
operating margin (%)	3.8%	3.6%	0.2%		3.0%	
<b>Net income - adjusted</b>	<b>3,016</b>	<b>2,907</b>	<b>109</b>	<b>3.7%</b>	<b>2,178</b>	<b>38.5%</b>
<b>Diluted EPS - adjusted</b>	<b>\$0.31</b>	<b>\$0.30</b>	<b>\$0.01</b>	<b>4.1%</b>	<b>\$0.22</b>	<b>41.1%</b>

Source: Company reports, Sidoti & Co., LLC estimates; NM = Not Meaningful

**We fine-tune our F2021 and F2022 EPS estimates.** In today's press release, Bassett's senior management highlighted its backlog, which has continued to increase due to its "strong three-week Labor Day retail sales event, which mirrored last year's results". Note that at the end of 3Q:F21, the order backlog of \$92.8 million was up 7.1% as incoming orders outpaced shipments. On the other hand, BSET, like others in the home furniture industry, is contending with continuing supply chain challenges resulting from COVID-related labor shortages and various disruptions creating significant delays in order fulfillment. Also, inflationary pressures have resulted several price increases over the last few months with BSET putting in another price increase on September 13 to offset higher costs. Likewise, at its Zenith unit, BSET has also put in a price increase to offset higher warehousing labor and freight-handling personnel costs. All in, as we fine-tune our revenue and margin assumptions, we maintain our F2021 EPS estimate at \$1.84 and now expect F2022 EPS of \$1.99 (was \$2.00).

**Our initial F2023 EPS projection is \$2.37.** We think the company's store base will remain steady with Bassett likely to operate 97 stores (63 corporate and 34 licensee-operated). As we see it, total furniture revenue will rise about 3% to \$441.0 million and assuming Zenith sales also increase around 3% to \$56.1 million, we estimate total revenue will increase 2.8% to \$497.1 million. As we expect the supply chain to function more "normally" by F2023, we estimate consolidated gross margin expansion of 80 basis points to 57.9%. Along with our projection of modest SG&A expense leverage, we estimate an operating margin of 6.6% versus 5.7% estimated in F2022.

**We expect Bassett's financials to remain in excellent shape.** BSET ended 3Q:F21 with zero bank debt and \$56.3 million of cash and short-term investments, or \$4.98 on a per-share basis. Following a free cash *outflow* of \$7.6 million (\$0.74 per share) in F2019, BSET's free cash flow jumped to \$30.6 million (\$3.07 per share) in F2020 mostly given lower inventory purchases and higher customer deposits. As we expect cash from operations to normalize in F2021 (as we assume less favorable working capital management partly offset by increased profitability) and increased cap-ex, we estimate free cash flow of \$21.3 million (\$2.14 per share) in F2021. As we see it, free cash flow will dip to \$17.0 million (\$1.71 per share) in F2022 before a rise to \$22.2 million (\$2.27 per share) in F2023. Immediately after the initial COVID-19 outbreak in spring 2020, and similar to other companies dealing with the initial COVID-19 uncertainty, BSET at first postponed the payment of its regular cash dividend from May to August and then reduced the regular quarterly dividend in July to \$0.08 per share from \$0.125 per share. With increased demand, the company returned the cash dividend to pre-COVID levels at \$0.125 per share in October 2020 and in July 2021, Bassett raised the quarterly dividend to \$0.14 per share, which we think will be further increased to \$0.15 per share in 3Q:F22 and to \$0.16 per share in 3Q:F23. From time to time, Bassett has also paid out some special cash dividends; the last one was a \$0.25 per-share payment in December 2020. We exclude additional special cash dividends from our financial forecasts but we would not be surprised by another special dividend in F2022 and/or F2023.

**Valuation**

**We maintain our Moderately Risky rating on BSET shares and \$36 price target.** Overall, we are encouraged by the better-than-expected EPS and strong Labor Day weekend sales. We acknowledge near-term operational challenges for BSET due to ongoing supply chain challenges and higher operational costs at the Zenith unit, which will be partly offset by another round of price increases. Nonetheless, with the shares trading at only 8x our initial F2023 EPS estimate, we argue that the shares are oversold as we still expect Bassett to profit from ongoing favorable demand along with management's steps in F2020 to appropriately reposition the business to leverage its largely domestic manufacturing footprint. These steps included closing 10% of its corporate stores (which were unprofitable), reducing staffing in its operations and streamlining its merchandising. We also expect BSET to benefit from the positive backdrop of elevated consumer spending on home furniture along with a healthy underlying demand for housing. During the past five years, shares of Bassett Furniture have traded in a range of 5x-23x two-year forward consensus EPS estimates, with an average of 15x. Our \$36 price target is now based on 15x (in line with the historical average) our new F2023 EPS forecast of \$2.37. Previously, we valued the stock at 18x our prior F2022 EPS estimate of \$2.00. With the extended valuation horizon, we think a lower P/E multiple is appropriate.

**Key Risks**

The economy

Raw material price inflation

Longer-than expected supply chain constraints

**BASSETT FURNITURE INDUSTRIES, INC.**

**Table 1: Bassett Furniture Industries Inc., Income Statement**

(\$ in thousands, except per share data)

Fiscal year ends the last Saturday in November

	F2018	F2019	Feb.	May	Aug.	Nov.	F2020	Feb A	May A	Aug A	Nov E	F2021 E	Feb E	May E	Aug E	Nov E	F2022 E	F2023 E
Revenue-furniture	\$ 402,469	\$ 403,865	\$ 98,942	\$ 53,000	\$ 80,341	\$ 105,389	\$ 337,672	\$ 101,655	\$ 109,997	\$ 104,870	\$ 109,987	\$ 426,509	\$ 104,758	\$ 108,207	\$ 102,807	\$ 113,112	\$ 428,884	\$ 440,978
Logistics revenue	54,386	48,222	13,178	10,801	11,218	12,994	48,191	12,018	14,062	14,036	14,391	54,507	12,315	13,122	14,527	14,676	54,640	56,104
<b>Total revenue</b>	<b>456,855</b>	<b>452,087</b>	<b>112,120</b>	<b>63,801</b>	<b>91,559</b>	<b>118,383</b>	<b>385,863</b>	<b>113,673</b>	<b>124,059</b>	<b>118,906</b>	<b>124,378</b>	<b>481,016</b>	<b>117,073</b>	<b>121,329</b>	<b>117,334</b>	<b>127,788</b>	<b>483,523</b>	<b>497,082</b>
Cost of furniture and accessories sold	(179,581)	(179,244)	(45,270)	(29,452)	(38,418)	(50,427)	(163,567)	(48,252)	(52,911)	(52,263)	(52,470)	(205,896)	(50,990)	(52,386)	(50,367)	(53,645)	(207,388)	(209,430)
<b>Gross profit</b>	<b>277,274</b>	<b>272,843</b>	<b>66,850</b>	<b>34,349</b>	<b>53,141</b>	<b>67,956</b>	<b>222,296</b>	<b>65,421</b>	<b>71,148</b>	<b>66,643</b>	<b>71,909</b>	<b>275,121</b>	<b>66,083</b>	<b>68,943</b>	<b>66,967</b>	<b>74,143</b>	<b>276,135</b>	<b>287,652</b>
SG&A expenses	(260,339)	(264,280)	(64,640)	(50,373)	(50,394)	(57,907)	(223,314)	(59,400)	(62,769)	(62,153)	(64,583)	(248,905)	(59,390)	(61,352)	(61,413)	(66,244)	(248,399)	(255,043)
New store pre-opening costs and other	(2,851)	(1,952)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating income</b>	<b>14,084</b>	<b>6,611</b>	<b>2,210</b>	<b>(16,024)</b>	<b>2,747</b>	<b>10,049</b>	<b>(1,018)</b>	<b>6,021</b>	<b>8,379</b>	<b>4,490</b>	<b>7,325</b>	<b>26,215</b>	<b>6,693</b>	<b>7,590</b>	<b>5,554</b>	<b>7,899</b>	<b>27,736</b>	<b>32,609</b>
Remeasurement gain/litigation gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (loss)	(1,878)	(1,145)	(362)	(765)	697	(133)	(563)	(337)	(332)	(347)	(420)	(1,436)	(345)	(440)	(325)	(420)	(1,530)	(1,530)
<b>Pretax income</b>	<b>12,206</b>	<b>5,466</b>	<b>1,848</b>	<b>(16,789)</b>	<b>3,444</b>	<b>9,916</b>	<b>(1,581)</b>	<b>5,684</b>	<b>8,047</b>	<b>4,143</b>	<b>6,905</b>	<b>24,779</b>	<b>6,348</b>	<b>7,150</b>	<b>5,229</b>	<b>7,479</b>	<b>26,206</b>	<b>31,079</b>
Income tax	(3,988)	(1,534)	(638)	4,533	(1,266)	(3,373)	(744)	(1,673)	(2,073)	(1,127)	(1,795)	(6,668)	(1,682)	(1,895)	(1,375)	(1,944)	(6,897)	(8,181)
Net income (loss) - GAAP	8,218	(1,928)	1,210	(20,352)	2,178	6,543	(10,421)	4,011	5,974	3,016	5,110	18,111	4,666	5,256	3,854	5,534	19,310	22,897
Earnings per share - diluted - GAAP	\$0.77	(\$0.19)	\$0.12	(\$2.04)	\$0.22	\$0.65	(\$1.05)	\$0.40	\$0.60	\$0.31	\$0.53	\$1.84	\$0.48	\$0.54	\$0.40	\$0.58	\$1.99	\$2.37
<b>Net income - adjusted</b>	<b>10,338</b>	<b>4,832</b>	<b>1,210</b>	<b>(12,256)</b>	<b>2,178</b>	<b>6,543</b>	<b>(2,325)</b>	<b>4,011</b>	<b>5,974</b>	<b>3,016</b>	<b>5,110</b>	<b>18,111</b>	<b>4,666</b>	<b>5,256</b>	<b>3,854</b>	<b>5,534</b>	<b>19,310</b>	<b>22,897</b>
<b>Earnings per share - adjusted</b>	<b>\$0.97</b>	<b>\$0.47</b>	<b>\$0.12</b>	<b>(\$1.23)</b>	<b>\$0.22</b>	<b>\$0.65</b>	<b>(\$0.23)</b>	<b>\$0.40</b>	<b>\$0.60</b>	<b>\$0.31</b>	<b>\$0.53</b>	<b>\$1.84</b>	<b>\$0.48</b>	<b>\$0.54</b>	<b>\$0.40</b>	<b>\$0.58</b>	<b>\$1.99</b>	<b>\$2.37</b>
Dividends per share (including special dividends)	\$0.820	\$0.500	\$0.125	\$0.125	\$0.080	\$0.125	\$0.455	\$0.375	\$0.125	\$0.140	\$0.140	\$0.780	\$0.140	\$0.140	\$0.150	\$0.150	\$0.580	\$0.620
Weighted average shares -diluted	10,692	10,286	10,109	9,957	9,972	10,147	9,970	9,940	9,900	9,785	9,747	9,843	9,732	9,712	9,711	9,698	9,714	9,665
<b>Margin Analysis</b>																		
Furniture gross margin	55.4%	55.6%	54.2%	44.4%	52.2%	52.2%	51.6%	52.5%	51.9%	50.2%	52.3%	51.7%	51.3%	51.6%	51.0%	52.6%	51.6%	52.5%
Consolidated gross margin	60.7%	60.4%	59.6%	53.8%	58.0%	57.4%	57.6%	57.6%	57.4%	56.0%	57.8%	57.2%	56.4%	56.8%	57.1%	58.0%	57.1%	57.9%
SG&A expenses as a % of revenue	57.0%	58.5%	57.7%	79.0%	55.0%	48.9%	57.9%	52.3%	50.6%	52.3%	51.9%	51.7%	50.7%	50.6%	52.3%	51.8%	51.4%	51.3%
New store opening and other costs as a % of revenue	0.6%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating margin	3.1%	1.5%	2.0%	-25.1%	3.0%	8.5%	-0.3%	5.3%	6.8%	3.8%	5.9%	5.4%	5.7%	6.3%	4.7%	6.2%	5.7%	6.6%
Pretax margin	2.7%	1.2%	1.6%	-26.3%	3.8%	8.4%	-0.4%	5.0%	6.5%	3.5%	5.6%	5.2%	5.4%	5.9%	4.5%	5.9%	5.4%	6.3%
Net margin	1.8%	-0.4%	1.1%	-31.9%	2.4%	5.5%	-2.7%	3.5%	4.8%	2.5%	4.1%	3.8%	4.0%	4.3%	3.3%	4.3%	4.0%	4.6%
Tax rate	32.7%	28.1%	34.5%	27.0%	36.8%	34.0%	-47.1%	29.4%	25.8%	27.2%	26.0%	26.9%	26.5%	26.5%	26.3%	26.0%	26.3%	26.3%
<b>Growth (year-over-year)</b>																		
Revenue-furniture	1.1%	0.3%	-7.8%	-44.7%	-18.3%	3.0%	-16.4%	2.7%	107.5%	30.5%	4.4%	26.3%	3.1%	-1.6%	-2.0%	2.8%	0.6%	2.8%
Revenue-logistics	0.0%	-11.3%	-2.3%	-12.7%	1.5%	14.8%	-0.1%	-8.8%	30.2%	25.1%	10.7%	13.1%	2.5%	-6.7%	3.5%	2.0%	0.2%	2.7%
Total revenue	1.0%	-1.0%	-7.2%	-41.0%	-16.3%	4.2%	-14.6%	1.4%	94.4%	29.9%	5.1%	24.7%	3.0%	-2.2%	-1.3%	2.7%	0.5%	2.8%
Operating income	-47.9%	-53.1%	132.9%	NM	NM	543.8%	NM	172.4%	NM	63.5%	-27.1%	NM	11.2%	-9.4%	23.7%	7.8%	5.8%	17.6%
Net income - adjusted	-33.5%	-53.3%	-19.8%	NM	NM	806.2%	NM	231.5%	NM	38.5%	-21.9%	NM	16.3%	-12.0%	27.8%	8.3%	6.6%	18.6%
EPS - adjusted	-33.2%	-51.4%	-16.8%	NM	NM	821.8%	NM	237.1%	NM	41.1%	-18.4%	NM	18.8%	-10.3%	28.8%	8.7%	8.0%	19.2%

Sources: Company reports and Sidoti & Company, LLC estimates; 1Q:F19 is a 14-week quarter; all others are 13-week quarters; NM = Not Meaningful

**Sidoti & Company, LLC**

**BASSETT FURNITURE INDUSTRIES, INC.**

**Table 2: Bassett Furniture Industries Inc., Cash Flow Statement**  
(\$ in thousands, except per share data)

Fiscal year ends the last Saturday in November

	F2018	Feb.	May	Aug.	Nov.	F2019	Feb.	May	Aug.	Nov.	F2020	Feb. A	May A	Aug. A	F2021 E	F2022 E	F2023 E
<b>Cash flow from operations</b>																	
Net income	\$ 8,218	\$ 608	\$ 445	\$ 2,157	\$ (5,138)	\$ (1,928)	\$ 1,210	\$ (20,352)	\$ 2,178	\$ 6,543	\$ (10,421)	\$ 4,011	\$ 5,974	\$ 3,016	\$ 18,111	\$ 19,310	\$ 22,897
Adjustments to reconcile net income to net cash flow:																	
Depreciation and amortization	13,203	3,370	3,365	3,357	3,408	13,500	3,623	3,616	3,010	3,231	13,480	3,331	3,562	3,565	13,957	13,748	13,596
Impairment of real estate	469	(9)	6	3	-	-	-	12,184	-	-	12,184	-	-	-	-	-	-
Tenant improvement allowance	2,462	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement gain on acquisition of affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of property and equipment	(234)	-	-	(98)	613	515	(58)	97	(152)	32	(81)	(4)	4	-	-	-	-
Goodwill impairment charge (non-cash)	-	-	-	-	1,926	1,926	-	1,971	-	-	1,971	-	-	-	-	-	-
Impairment and lease exit charges on retail real estate	-	-	-	-	4,580	4,580	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	4,663	45	(22)	(1)	(2,912)	(2,890)	(125)	(396)	(187)	3,221	2,513	826	375	(148)	(772)	(1,417)	(1,525)
Other	1,699	(209)	(67)	437	1,337	1,498	169	4,323	198	(640)	4,050	274	1,038	927	247	(560)	(595)
Decrease (increase) in accounts receivable	1,732	(4,084)	2,260	64	(795)	(2,555)	(1,873)	4,356	(931)	(3,006)	(1,454)	(2,380)	(1,019)	(785)	(212)	(126)	(640)
Decrease (increase) in inventory	(5,998)	(3,318)	(37)	1,250	(837)	(2,942)	(1,213)	2,096	3,004	2,607	6,494	(8,050)	(5,465)	(7,401)	(16,112)	1,869	238
Decrease (increase) in other current assets	(961)	(3,163)	(111)	(3,385)	7,717	1,058	(536)	(8,555)	193	(426)	(9,324)	(788)	813	(125)	(129)	(142)	(145)
Operating leases, net	-	-	-	-	-	-	(2,882)	1,418	(662)	(996)	(3,122)	(732)	(644)	20,233	3,122	-	-
Increase (decrease) in accounts payable and accrued liabilities	3,445	(8,974)	953	3,099	1,969	(2,953)	(3,558)	(1,262)	16,579	8,626	20,385	8,496	2,428	(17,655)	12,651	(3,705)	1,857
<b>Net cash provided by operating activities</b>	<b>\$ 28,698</b>	<b>\$ (15,734)</b>	<b>\$ 6,792</b>	<b>\$ 6,883</b>	<b>\$ 11,868</b>	<b>\$ 9,809</b>	<b>\$ (5,243)</b>	<b>\$ (504)</b>	<b>\$ 23,230</b>	<b>\$ 19,192</b>	<b>\$ 36,675</b>	<b>\$ 4,984</b>	<b>\$ 7,066</b>	<b>\$ 1,627</b>	<b>\$ 30,862</b>	<b>\$ 28,977</b>	<b>\$ 35,684</b>
<b>Cash flow from investing activities</b>																	
Purchase of property and equipment	(18,301)	(5,552)	(2,761)	(2,338)	(6,724)	(17,375)	(1,340)	(451)	(423)	(3,815)	(6,029)	(895)	(2,588)	(3,658)	(9,600)	(12,000)	(13,500)
Proceeds from sales of property and equipment	2,689	-	11	108	1,524	1,643	1,697	648	-	-	2,345	8	88	5	101	-	-
Proceeds (Purchases) from investments, net	482	-	-	5,000	207	5,207	(241)	-	-	(54)	(295)	-	-	-	-	-	-
Other, net	-	117	226	(849)	(142)	(648)	(193)	(18)	(880)	1,323	232	(302)	(33)	(838)	-	-	-
Cash paid for business acquisitions, net of cash acquired	(15,556)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net cash flow (used for) investing activities</b>	<b>\$ (30,686)</b>	<b>\$ (5,435)</b>	<b>\$ (2,524)</b>	<b>\$ 1,921</b>	<b>\$ (5,135)</b>	<b>\$ (11,173)</b>	<b>\$ (77)</b>	<b>\$ 179</b>	<b>\$ (1,303)</b>	<b>\$ (2,546)</b>	<b>\$ (3,747)</b>	<b>\$ (1,189)</b>	<b>\$ (2,533)</b>	<b>\$ (4,491)</b>	<b>\$ (9,499)</b>	<b>\$ (12,000)</b>	<b>\$ (13,500)</b>
<b>Cash flow from financing activities</b>																	
Net borrowings under revolving credit facility	(3,455)	(109)	(111)	(72)	-	(292)	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock, net	382	74	85	87	82	328	75	82	60	68	285	83	89	94	345	370	480
Repurchases of common stock	(5,946)	(1,012)	(1,335)	(4,498)	(500)	(7,345)	(766)	(475)	(301)	(666)	(2,208)	(534)	(2,391)	(2,641)	(6,975)	(3,360)	(5,250)
Proceeds from exercise of stock options	-	25	-	-	-	25	-	-	-	-	-	-	42	-	42	-	-
Excess tax benefits from stock-based compensation	(674)	-	-	-	-	-	(215)	-	1	(14)	(228)	(219)	-	-	-	-	-
Cash dividends	(8,800)	(1,291)	(1,312)	(1,264)	(1,266)	(5,133)	(1,260)	-	(2,046)	(1,238)	(4,544)	(3,718)	(1,236)	(1,367)	(7,678)	(5,634)	(5,992)
Proceeds from equipment loans	-	-	-	-	-	-	(12)	(36)	(47)	(26)	(121)	(173)	(294)	(387)	-	-	-
<b>Net cash from (used in) financing activities</b>	<b>\$ (18,493)</b>	<b>\$ (2,313)</b>	<b>\$ (2,673)</b>	<b>\$ (5,747)</b>	<b>\$ (1,684)</b>	<b>\$ (12,417)</b>	<b>\$ (2,178)</b>	<b>\$ (429)</b>	<b>\$ (2,333)</b>	<b>\$ (1,876)</b>	<b>\$ (6,816)</b>	<b>\$ (4,561)</b>	<b>\$ (3,790)</b>	<b>\$ (4,301)</b>	<b>\$ (14,266)</b>	<b>\$ (8,624)</b>	<b>\$ (10,762)</b>
Net increase (decrease) in cash and cash equivalents	(20,481)	(23,482)	1,595	3,057	5,049	(13,781)	(7,498)	(754)	19,594	14,770	26,112	(766)	743	(7,165)	7,097	8,353	11,422
Cash and cash equivalents at beginning of year	53,949	33,468	9,986	11,581	14,638	33,468	19,687	12,189	11,435	31,029	19,687	45,799	45,033	45,776	45,799	52,896	61,250
<b>Cash and cash equivalents at end of year</b>	<b>\$ 33,468</b>	<b>\$ 9,986</b>	<b>\$ 11,581</b>	<b>\$ 14,638</b>	<b>\$ 19,687</b>	<b>\$ 19,687</b>	<b>\$ 12,189</b>	<b>\$ 11,435</b>	<b>\$ 31,029</b>	<b>\$ 45,799</b>	<b>\$ 45,799</b>	<b>\$ 45,033</b>	<b>\$ 45,776</b>	<b>\$ 38,611</b>	<b>\$ 52,896</b>	<b>\$ 61,250</b>	<b>\$ 72,672</b>
<b>Free cash flow (operating cash flow less cap-ex)</b>	<b>\$ 10,397</b>	<b>\$ (21,286)</b>	<b>\$ 4,031</b>	<b>\$ 4,545</b>	<b>\$ 5,144</b>	<b>\$ (7,566)</b>	<b>\$ (6,583)</b>	<b>\$ (955)</b>	<b>\$ 22,807</b>	<b>\$ 15,377</b>	<b>\$ 30,646</b>	<b>\$ 4,089</b>	<b>\$ 4,478</b>	<b>\$ (2,031)</b>	<b>\$ 21,262</b>	<b>\$ 16,977</b>	<b>\$ 22,184</b>
<b>Free cash flow/share</b>	<b>\$ 0.97</b>	<b>\$ (2.03)</b>	<b>\$ 0.39</b>	<b>\$ 0.45</b>	<b>\$ 0.51</b>	<b>\$ (0.74)</b>	<b>\$ (0.65)</b>	<b>\$ (0.10)</b>	<b>\$ 2.29</b>	<b>\$ 1.52</b>	<b>\$ 3.07</b>	<b>\$ 0.41</b>	<b>\$ 0.45</b>	<b>\$ (0.21)</b>	<b>\$ 2.14</b>	<b>\$ 1.71</b>	<b>\$ 2.27</b>

Sources: Company reports and Sidoti & Company, LLC estimates

**BASSETT FURNITURE INDUSTRIES, INC.**

**Table 3: Bassett Furniture Industries Inc., Balance Sheet**

(\$ in thousands, except per share data)

Fiscal year ends the last Saturday in November

	F2018	Feb.	May	Aug.	F2019	Feb.	May	Aug.	F2020	Feb. A	May A	Aug. A	F2021 E	F2022 E	F2023 E
<b>Assets</b>															
Current assets															
Cash and cash equivalents	\$ 33,468	\$ 9,986	\$ 11,581	\$ 14,638	\$ 19,687	\$ 12,189	\$ 11,435	\$ 31,029	\$ 45,799	\$ 45,033	\$ 45,776	\$ 38,611	\$ 52,896	\$ 61,250	\$ 72,672
Short-term investments	22,643	22,643	22,643	17,643	17,436	17,677	17,673	17,661	17,715	17,715	17,715	17,715	17,715	17,715	17,715
Accounts receivable	19,055	23,222	20,906	20,640	21,378	23,205	17,799	19,099	22,340	24,720	25,882	26,769	22,552	22,678	23,317
Inventory	64,192	66,678	66,715	65,465	66,302	67,515	62,483	58,601	54,886	62,936	67,301	73,827	70,998	69,129	68,892
Other current assets	9,189	14,540	14,652	13,417	11,983	11,173	19,753	19,528	19,938	20,629	19,797	19,889	20,067	20,209	20,354
<b>Total current assets</b>	<b>148,547</b>	<b>137,069</b>	<b>136,497</b>	<b>131,803</b>	<b>136,786</b>	<b>131,759</b>	<b>129,143</b>	<b>145,918</b>	<b>160,678</b>	<b>171,033</b>	<b>176,471</b>	<b>176,811</b>	<b>184,229</b>	<b>190,981</b>	<b>202,950</b>
Long-term assets															
Property and equipment	104,863	106,880	106,089	104,908	101,724	100,499	91,128	89,031	90,917	92,772	92,581	94,489	86,459	84,711	84,615
Goodwill and other intangible assets	28,480	28,386	28,291	28,196	26,176	26,081	24,016	23,921	23,827	23,732	23,637	23,543	23,827	23,827	23,827
Right of use assets under operating leases	-	-	-	-	-	144,468	130,042	120,889	116,903	111,700	116,357	110,792	113,406	113,281	113,176
Deferred income taxes, net	3,266	3,228	3,250	3,251	5,744	7,123	7,550	7,729	4,587	3,749	3,362	3,498	5,359	6,776	8,301
Other	6,485	6,472	6,374	7,258	5,336	5,304	5,094	6,828	5,637	5,975	6,071	6,900	5,862	6,684	7,606
<b>Total assets</b>	<b>291,641</b>	<b>282,035</b>	<b>280,501</b>	<b>275,416</b>	<b>275,766</b>	<b>415,234</b>	<b>386,973</b>	<b>394,316</b>	<b>402,549</b>	<b>408,961</b>	<b>418,479</b>	<b>416,033</b>	<b>419,142</b>	<b>426,260</b>	<b>440,475</b>
<b>Liabilities and shareholders' equity</b>															
Current liabilities															
Accounts payable	27,407	21,439	19,587	20,363	23,677	20,331	14,286	19,215	23,426	28,172	28,522	27,951	25,123	25,616	25,371
Accrued compensation and benefits	12,994	10,876	11,299	11,046	11,308	12,108	12,090	14,463	16,964	14,418	14,124	14,603	16,815	16,529	17,137
Current portion of long-term debt	292	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer deposits	27,157	24,416	24,910	22,484	25,341	24,049	23,191	35,721	39,762	44,674	47,911	51,103	45,223	41,275	42,438
Dividends payable	-	-	-	-	-	-	1,249	-	-	-	-	-	-	-	-
Current portion of operating lease obligations	-	-	-	-	-	29,516	29,009	28,211	27,078	27,088	27,358	27,545	26,828	26,578	26,328
Other accrued liabilities	13,969	16,546	11,667	11,821	11,945	10,304	15,982	12,874	11,141	13,088	12,534	13,050	16,782	16,820	17,150
<b>Total current liabilities</b>	<b>81,819</b>	<b>73,277</b>	<b>67,463</b>	<b>65,714</b>	<b>72,271</b>	<b>96,308</b>	<b>95,807</b>	<b>110,484</b>	<b>118,371</b>	<b>127,440</b>	<b>130,449</b>	<b>134,252</b>	<b>130,772</b>	<b>126,817</b>	<b>128,424</b>
Long-term liabilities															
Post-employment benefit obligations	13,173	12,853	12,623	12,716	11,830	11,723	11,817	12,023	12,089	12,347	12,398	12,454	12,512	12,762	13,044
Long-term portion of operating lease obligations	-	-	-	-	-	131,978	126,036	117,009	111,972	105,990	109,832	103,468	111,847	111,972	112,117
Other liabilities	6,340	6,900	13,249	13,040	12,995	1,185	1,132	1,336	2,087	5,483	5,538	6,412	2,136	2,148	2,193
<b>Total liabilities</b>	<b>\$ 101,332</b>	<b>\$ 93,030</b>	<b>\$ 93,335</b>	<b>\$ 91,470</b>	<b>\$ 97,096</b>	<b>\$ 241,194</b>	<b>\$ 234,792</b>	<b>\$ 240,852</b>	<b>\$ 244,519</b>	<b>\$ 251,260</b>	<b>\$ 258,217</b>	<b>\$ 256,586</b>	<b>\$ 257,267</b>	<b>\$ 253,699</b>	<b>\$ 255,778</b>
Shareholders' equity	190,309	189,005	187,166	183,946	178,670	174,040	152,181	153,464	158,030	157,701	160,262	159,447	161,875	172,561	184,696
<b>Total liabilities and shareholders' equity</b>	<b>\$ 291,641</b>	<b>\$ 282,035</b>	<b>\$ 280,501</b>	<b>\$ 275,416</b>	<b>\$ 275,766</b>	<b>\$ 415,234</b>	<b>\$ 386,973</b>	<b>\$ 394,316</b>	<b>\$ 402,549</b>	<b>\$ 408,961</b>	<b>\$ 418,479</b>	<b>\$ 416,033</b>	<b>\$ 419,142</b>	<b>\$ 426,260</b>	<b>\$ 440,475</b>
Accounts receivable, days	15.2	17.5	17.6	17.2	17.3	18.9	25.5	19.0	21.1	19.8	19.0	20.5	19.3	19.3	19.3
Inventory turnover	2.8	3.0	2.5	2.6	2.7	2.7	1.9	2.6	3.0	3.1	3.1	2.8	2.9	3.0	3.0
Accounts payable, days	22.7	16.5	16.7	17.6	19.5	16.9	16.3	19.7	22.1	23.9	22.5	22.3	21.5	21.8	21.0
<b>Selected Financial Data</b>															
Total debt/total capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash and short-term investments	56,111	32,629	34,224	32,281	37,123	29,866	29,108	48,690	63,514	62,748	63,491	56,326	70,611	78,965	90,387
Net cash and investments per share	\$ 5.22	\$ 3.11	\$ 3.27	\$ 3.01	\$ 3.61	\$ 2.95	\$ 2.92	\$ 4.88	\$ 6.37	\$ 6.31	\$ 6.41	\$ 4.98	\$ 7.17	\$ 8.13	\$ 9.35
Net cash and investments, including lease obligations, per share	\$ (2.48)	\$ (4.74)	\$ (3.56)	\$ (3.20)	\$ (4.40)	\$ (13.02)	\$ (12.65)	\$ (9.75)	\$ (7.58)	\$ (7.08)	\$ (7.44)	\$ (7.63)	\$ (6.91)	\$ (6.13)	\$ (4.97)
Current ratio	1.82	1.87	2.02	2.01	1.89	1.37	1.35	1.32	1.36	1.34	1.35	1.32	1.41	1.51	1.58
Book value per share	\$17.80	\$18.03	\$17.89	\$17.59	\$17.37	\$17.22	\$15.28	\$15.39	\$15.85	\$15.87	\$16.19	\$16.29	\$16.45	\$17.76	\$19.11
Tangible book value per share	\$15.14	\$15.32	\$15.19	\$14.89	\$14.83	\$14.64	\$12.87	\$12.99	\$13.46	\$13.48	\$13.80	\$13.89	\$14.02	\$15.31	\$16.65
ROA	2.8%	2.1%	0.6%	0.6%	NM	1.2%	NM	2.2%	NM	3.9%	5.7%	2.9%	4.3%	4.5%	5.2%
ROE	4.3%	3.2%	1.0%	1.0%	NM	2.8%	NM	5.7%	NM	10.2%	14.9%	7.6%	11.2%	11.2%	12.4%

Sources: Company reports and Sidoti & Company, LLC estimates

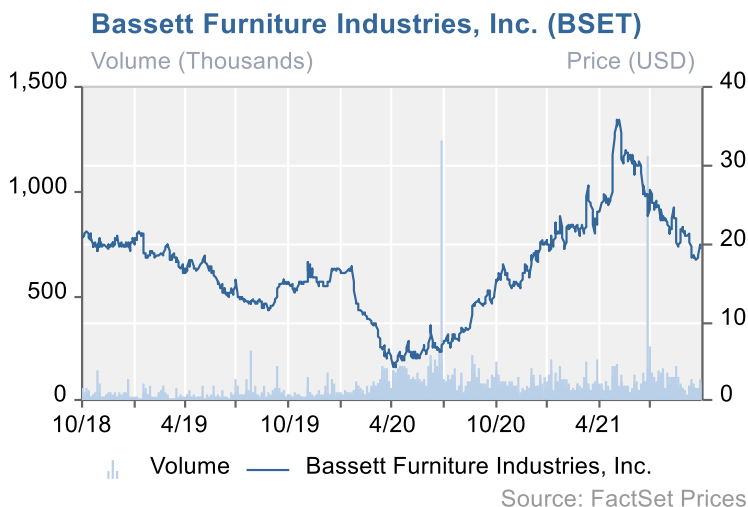
## Appendix Required Disclosures

### Required Disclosures

**Bassett Furniture Industries, Inc. (BSET-\$18.23) NR Price Target: \$36 Risk Rating: M**

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	12/11/18	20.4	NR	26	M
PT	1/18/19	18.8		23	
PT	7/2/19	13.9		21	
PT	3/20/20	6.3		14	
PT	4/2/20	4.9		10	
PT	8/24/20	12		14	
PT	10/1/20	14.7		17	
PT	11/23/20	16.3		21	
PT	12/4/20	18.2		23	
PT	1/14/21	20.7		26	
PT	1/21/21	21.6		26	
PT	3/11/21	24.6		29	
PT	3/29/21	23.5		29	
PT	4/1/21	23.5		32	
PT	4/26/21	28.9		34	
PT	5/24/21	31.7		34	
PT	6/22/21	27.4		34	
PT	7/1/21	26.5		38	
PT	7/19/21	25		38	
PT	8/17/21	22.1		36	
PT	9/20/21	18.5		36	



#### Valuation

We maintain our Moderately Risky rating on BSET shares and \$36 price target. Overall, we are encouraged by the better-than-expected EPS and strong Labor Day weekend sales. We acknowledge near-term operational challenges for BSET due to ongoing supply chain challenges and higher operational costs at the Zenith unit, which will be partly offset by another round of price increases. Nonetheless, with the shares trading at only 8x our initial F2023 EPS estimate, we argue that the shares are oversold as we still expect Bassett to profit from ongoing favorable demand along with management's steps in F2020 to appropriately reposition the business to leverage its largely domestic manufacturing footprint. These steps included closing 10% of its corporate stores (which were unprofitable), reducing staffing in its operations and streamlining its merchandising. We also expect BSET to benefit from the positive backdrop of elevated consumer spending on home furniture along with a healthy underlying demand for housing. During the past five years, shares of Bassett Furniture have traded in a range of 5x-23x two-year forward consensus EPS estimates, with an average of 15x. Our \$36 price target is now based on 15x (in line with the historical average) our new F2023 EPS forecast of \$2.37. Previously, we valued the stock at 18x our prior F2022 EPS estimate of \$2.00. With the extended valuation horizon, we think a lower P/E multiple is appropriate.

#### Key Risks

The economy

Raw material price inflation

Longer-than expected supply chain constraints

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