



Bassett Furniture Industries, Inc. (BSET)

Supply Chain Issues, Higher Costs Likely Hurt 4Q:F21; Favorable Demand, Potential Supply Chain Normalization May Enable F2022, F2023 EPS Gains; Maintain Moderately Risky Rating, \$36 Target

| | F2020 | F2021E | | F2022E | | F2023E | |
|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|-----|
| | | OLD | NEW | OLD | NEW | OLD | NEW |
| Feb. | \$0.12 | \$0.40A | | \$0.47 | \$0.42 | \$0.57 | |
| May | (1.23) | 0.60A | | 0.54 | 0.51 | 0.67 | |
| Aug. | 0.22 | 0.31A | | 0.41 | | 0.48 | |
| Nov. | <u>0.65</u> | <u>0.41</u> | <u>0.35</u> | <u>0.58</u> | | <u>0.65</u> | |
| EPS (FY) | (\$0.23) | \$1.72 | \$1.66 | \$1.99 | \$1.91 | \$2.37 | |
| P/E (FY) | | 10.1x | | 8.8x | 7.1x | | |

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 | \$479.6 | \$482.6 | \$497.2 |
| GAAP EPS | \$0.87 | \$1.90 | \$1.46 | \$1.70 | \$0.77 | (\$0.19) | (\$1.05) | \$1.66 | \$1.91 | \$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.

| Release Date | Conference Call | Time (Eastern) | Contact | Co. Guidance | Consensus |
|-------------------|-----------------|----------------|---------|--------------|-----------|
| January 20 (est.) | N/A | N/A | N/A | Not provided | \$0.48 |

- **Similar to other residential furniture companies, we think Bassett Furniture will continue to experience favorable underlying demand that will likely continue to exceed pre-COVID levels.**
- **However, we think supply chain constraints and inflationary pressures likely resulted in a year-over-year operating margin contraction and lead to our lower EPS estimate of \$0.35 (was \$0.41) in 4Q:F21 versus \$0.65 a year earlier.**
- **As Bassett continues to work through its backlog and likely continues to benefit from consumers' interest in the home, we estimate additional revenue gains through F2023.**
- **As we assume some "normalization" of the supply chain in F2022, we expect EPS gains of \$1.91 in F2022 (was \$1.99) and still project EPS of \$2.37 in F2023, compared to our updated EPS forecast of \$1.66 for F2021.**
- **In our view, Bassett will maintain a strong balance sheet with zero bank debt. We estimate average annual free cash flow per share of about \$2 (between F2021 and F2023) will likely be used for cash dividends and share buybacks.**
- **We maintain our \$36 price target, which is based on 15x our F2023 EPS estimate of \$2.37. We maintain a Moderately Risky rating on BSET shares.**

We think underlying demand will remain above pre-pandemic levels... At the end of 3Q:F21, BSET's order backlog of \$92.8 million was up 7.1% as incoming orders outpaced shipments; this order backlog increased further after the company's strong Labor Day weekend sales. While the company has cycled through the one-year anniversary of the initial COVID surge in demand, we argue that underlying demand for furniture will likely remain above pre-COVID levels as many consumers still have plenty of cash to spend (given various government stimulus programs), and with the new Omicron variant, there could be another

NR

Price Target: \$36

Price: \$16.77

Risk Rating: M

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Key Statistics

| | |
|-------------------------------|----------|
| Analysts Covering | 1 |
| Market Cap (Mil) | \$160 |
| Enterprise Value | \$239 |
| 52-Week Range (NASDAQ) | 37-15 |
| 5-Year EPS CAGR | 16% |
| Avg. Daily Trading Volume | 55,000 |
| Shares Out (Mil) | 9.756 |
| Float Shares (Mil) | 9.065 |
| Insider Ownership | 5% |
| Institutional Holdings | 76% |
| Annualized Dividend | \$0.53 |
| Dividend Yield | 3.2% |
| FCF Per Share (F2023E) | \$2.27 |
| FCF Yield (F2023E) | 13.5% |
| Net Cash Per Share (F2023E)* | (\$5.23) |
| Price to Book Value | 1.0x |
| Return on Equity (F2023E) | 12.6% |
| Total Debt to Capital | Nil |
| Interest Coverage Ratio | N/A |
| Short Interest % | 3.3% |
| Short Interest Days To Cover | 5.8 |
| Russell 2000 | 2,245 |
| Russell 2000 – Last 12 Months | 13.7% |
| BSET – Last 12 Months | -16.5% |



tailwind with consumer “nesting” and some consumers potentially postponing vacations, going out to restaurants, etc. In addition, we think BSET will benefit from increased purchases of second/vacation homes and positive demographic trends, including more millennials buying homes.

... however, with ongoing supply chain issues and inflationary pressures, we reduce our EPS estimates. Last month, Hooker Furnishings Corp. (NASDAQ: HOFT, BUY) pointed to ongoing supply chain constraints, including the nearly three-month lockdown in Vietnam, and product and raw materials cost inflation (which will be partly offset by price increases with a delayed lag impact) as key reasons for near-term margin pressures. Similarly, Flexsteel (NASDAQ: FLXS, NC), a manufacturer, importer and online marketer of residential furniture, noted in its mid-December business update that supply chain challenges have resulted in higher-than-expected ocean container ancillary expenses, which will result in near-term profitability challenges. While BSET manufactures the vast majority of its products in the U.S., the company relies on imported component parts and also imports some finished goods. As such, we think Bassett is not immune to these supply chain and inflationary pressures and thus, we lower our 4Q:F21 and F2022 EPS estimates by \$0.06 and \$0.08 respectively, to \$0.35 and \$1.66.

For 4Q:F21, we now estimate EPS of \$0.35. Previously, we expected EPS of \$0.41. By our forecast, total revenue increased 3.9% to \$122.9 million (was \$123.8 million) as we estimate approximately mid-single digit sales gains in each segment. Given the aforementioned supply chain challenges and inflationary pressures, we think the company’s furniture gross margin declined 70 basis points from 4Q:F21 to 51.5%. We also think the company’s logistics segment (Zenith) was hurt by higher labor costs as well. Along with our assumption of adverse operating expense leverage, we think that the consolidated operating margin declined to 4.0% from 8.5% in 4Q:F20.

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

| in thousands of dollars except per share amounts | 4Q:F21 Estimate | 4Q:F20 Actual | % Y-O-Y Change |
|--|-------------------|-------------------|----------------|
| Revenue-furniture | \$ 109,254 | \$ 105,389 | 3.7% |
| Revenue-logistics | 13,689 | 12,994 | 5.3% |
| Total revenue | \$ 122,942 | \$ 118,383 | 3.9% |
| Gross profit | 69,985 | 67,956 | 3.0% |
| <i>gross margin (%)</i> | <i>56.9%</i> | <i>57.4%</i> | |
| Operating income | 4,893 | 10,049 | -51.3% |
| <i>operating margin (%)</i> | <i>4.0%</i> | <i>8.5%</i> | |
| Net income - adjusted | 3,310 | 6,543 | -49.4% |
| Diluted EPS - adjusted | \$0.35 | \$0.65 | -46.6% |

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

As we see it, the company’s financials are likely to remain in excellent shape. Bassett ended the August quarter with zero bank debt and \$56.3 million of cash and short-term investments, or \$4.98 per share. After a free cash *outflow* of \$7.6 million (\$0.74 per share) in F2019, BSET’s free cash flow surged to \$30.6 million (\$3.07 per share) in F2020 mostly due to reduced inventory purchases and increased customer deposits. Assuming “normalized” cash from operations in F2021 (due to likely less favorable working capital management partly offset by higher net income) and higher cap-ex, we estimate free cash flow of \$19.3 million (\$1.94 per share) in F2021. In our view, free cash flow will decline to \$16.5 million (\$1.67 per share) in F2022 before an expected increase to \$22.2 million (\$2.27 per share) in F2023. We expect BSET to remain shareholder-friendly with its excess cash flow. With higher demand, Bassett returned the cash dividend to pre-COVID levels at \$0.125 per share in October 2020 (after temporarily reducing the cash dividend to \$0.08 per share after the initial COVID-19 uncertainty) and in July 2021, Bassett bumped up the quarterly dividend to \$0.14 per share. We expect the cash dividend will be further increased to \$0.15 per share in 3Q:F22 and to \$0.16 per share in 3Q:F23. Bassett has also paid out some special cash dividends in the past; the last one was a \$0.25 per-share payment in December 2020. We exclude additional special cash dividends from our financial projections. However, 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. Despite our tempered EPS estimates, we argue that BSET shares remain undervalued, especially as we still expect Bassett to profit from demand and backlogs that are higher than pre-COVID levels along with previous unprofitable store closings and management leveraging its largely domestic manufacturing footprint. 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 roughly 15x. Our \$36 price target is based on 15x (consistent with the historical average) our F2023 EPS forecast of \$2.37. | | |
| 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 | \$ 109,254 | \$ 425,776 | \$ 104,531 | \$ 107,978 | \$ 102,851 | \$ 113,175 | \$ 428,535 | \$ 441,533 |
| Logistics revenue | 54,386 | 48,222 | 13,178 | 10,801 | 11,218 | 12,994 | 48,191 | 12,018 | 14,062 | 14,036 | 13,689 | 53,805 | 12,258 | 13,054 | 14,541 | 14,168 | 54,022 | 55,690 |
| Total revenue | 456,855 | 452,087 | 112,120 | 63,801 | 91,559 | 118,383 | 385,863 | 113,673 | 124,059 | 118,906 | 122,942 | 479,580 | 116,789 | 121,032 | 117,392 | 127,343 | 482,557 | 497,222 |
| 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) | (52,958) | (206,384) | (51,185) | (52,289) | (50,384) | (53,066) | (206,923) | (209,218) |
| Gross profit | 277,274 | 272,843 | 66,850 | 34,349 | 53,141 | 67,956 | 222,296 | 65,421 | 71,148 | 66,643 | 69,985 | 273,197 | 65,604 | 68,744 | 67,009 | 74,277 | 275,634 | 288,004 |
| SG&A expenses | (260,339) | (264,280) | (64,640) | (50,373) | (50,394) | (57,907) | (223,314) | (59,400) | (62,769) | (62,153) | (65,091) | (249,413) | (59,663) | (61,554) | (61,337) | (66,393) | (248,947) | (255,413) |
| New store pre-opening costs and other | (2,851) | (1,952) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Operating income | 14,084 | 6,611 | 2,210 | (16,024) | 2,747 | 10,049 | (1,018) | 6,021 | 8,379 | 4,490 | 4,893 | 23,783 | 5,941 | 7,190 | 5,671 | 7,884 | 26,687 | 32,591 |
| 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) |
| Pretax income | 12,206 | 5,466 | 1,848 | (16,789) | 3,444 | 9,916 | (1,581) | 5,684 | 8,047 | 4,143 | 4,473 | 22,347 | 5,596 | 6,750 | 5,346 | 7,464 | 25,157 | 31,061 |
| Income tax | (3,988) | (1,534) | (638) | 4,533 | (1,266) | (3,373) | (744) | (1,673) | (2,073) | (1,127) | (1,163) | (6,036) | (1,483) | (1,789) | (1,406) | (1,941) | (6,618) | (8,176) |
| Net income (loss) - GAAP | 8,218 | (1,928) | 1,210 | (20,352) | 2,178 | 6,543 | (10,421) | 4,011 | 5,974 | 3,016 | 3,310 | 16,311 | 4,113 | 4,961 | 3,940 | 5,523 | 18,538 | 22,884 |
| 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 | \$0.35 | \$1.66 | \$0.42 | \$0.51 | \$0.41 | \$0.58 | \$1.91 | \$2.37 |
| Net income - adjusted | 10,338 | 4,832 | 1,210 | (12,256) | 2,178 | 6,543 | (2,325) | 4,011 | 5,974 | 3,016 | 3,310 | 16,311 | 4,113 | 4,961 | 3,940 | 5,523 | 18,538 | 22,884 |
| Earnings per share - adjusted | \$0.97 | \$0.47 | \$0.12 | (\$1.23) | \$0.22 | \$0.65 | (\$0.23) | \$0.40 | \$0.60 | \$0.31 | \$0.35 | \$1.66 | \$0.42 | \$0.51 | \$0.41 | \$0.58 | \$1.91 | \$2.37 |
| 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 |
| Margin Analysis | | | | | | | | | | | | | | | | | | |
| Furniture gross margin | 55.4% | 55.6% | 54.2% | 44.4% | 52.2% | 52.2% | 51.6% | 52.5% | 51.9% | 50.2% | 51.5% | 51.5% | 51.0% | 51.6% | 51.0% | 53.1% | 51.7% | 52.6% |
| Consolidated gross margin | 60.7% | 60.4% | 59.6% | 53.8% | 58.0% | 57.4% | 57.6% | 57.6% | 57.4% | 56.0% | 56.9% | 57.0% | 56.2% | 56.8% | 57.1% | 58.3% | 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% | 52.9% | 52.0% | 51.1% | 50.9% | 52.2% | 52.1% | 51.6% | 51.4% |
| 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% | 4.0% | 5.0% | 5.1% | 5.9% | 4.8% | 6.2% | 5.5% | 6.6% |
| Pretax margin | 2.7% | 1.2% | 1.6% | -26.3% | 3.8% | 8.4% | -0.4% | 5.0% | 6.5% | 3.5% | 3.6% | 4.7% | 4.8% | 5.6% | 4.6% | 5.9% | 5.2% | 6.2% |
| Net margin | 1.8% | -0.4% | 1.1% | -31.9% | 2.4% | 5.5% | -2.7% | 3.5% | 4.8% | 2.5% | 2.7% | 3.4% | 3.5% | 4.1% | 3.4% | 4.3% | 3.8% | 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% | 27.0% | 26.5% | 26.5% | 26.3% | 26.0% | 26.3% | 26.3% |
| Growth (year-over-year) | | | | | | | | | | | | | | | | | | |
| Revenue-furniture | 1.1% | 0.3% | -7.8% | -44.7% | -18.3% | 3.0% | -16.4% | 2.7% | 107.5% | 30.5% | 3.7% | 26.1% | 2.8% | -1.8% | -1.9% | 3.6% | 0.6% | 3.0% |
| Revenue-logistics | 0.0% | -11.3% | -2.3% | -12.7% | 1.5% | 14.8% | -0.1% | -8.8% | 30.2% | 25.1% | 5.3% | 11.6% | 2.0% | -7.2% | 3.6% | 3.5% | 0.4% | 3.1% |
| Total revenue | 1.0% | -1.0% | -7.2% | -41.0% | -16.3% | 4.2% | -14.6% | 1.4% | 94.4% | 29.9% | 3.9% | 24.3% | 2.7% | -2.4% | -1.3% | 3.6% | 0.6% | 3.0% |
| Operating income | -47.9% | -53.1% | 132.9% | NM | NM | 543.8% | NM | 172.4% | NM | 63.5% | -51.3% | NM | -1.3% | -14.2% | 26.3% | 61.1% | 12.2% | 22.1% |
| Net income - adjusted | -33.5% | -53.3% | -19.8% | NM | NM | 806.2% | NM | 231.5% | NM | 38.5% | -49.4% | NM | 2.5% | -17.0% | 30.6% | 66.9% | 13.7% | 23.4% |
| EPS - adjusted | -33.2% | -51.4% | -16.8% | NM | NM | 821.8% | NM | 237.1% | NM | 41.1% | -46.6% | NM | 4.7% | -15.3% | 31.6% | 65.8% | 15.2% | 24.1% |

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

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 |
|---|--------------------|--------------------|-------------------|-------------------|-------------------|--------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| Cash flow from operations | | | | | | | | | | | | | | | | | |
| 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 | \$ 16,311 | \$ 18,538 | \$ 22,884 |
| 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 | 243 | (558) | (582) |
| 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) | (174) | (146) | (687) |
| 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) | (16,281) | 2,192 | 153 |
| 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) | 12,583 | (3,698) | 2,001 |
| Net cash provided by operating activities | \$ 28,698 | \$ (15,734) | \$ 6,792 | \$ 6,883 | \$ 11,868 | \$ 9,809 | \$ (5,243) | \$ (504) | \$ 23,230 | \$ 19,192 | \$ 36,675 | \$ 4,984 | \$ 7,066 | \$ 1,627 | \$ 28,861 | \$ 28,517 | \$ 35,695 |
| Cash flow from investing activities | | | | | | | | | | | | | | | | | |
| 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) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net cash flow (used for) investing activities | \$ (30,686) | \$ (5,435) | \$ (2,524) | \$ 1,921 | \$ (5,135) | \$ (11,173) | \$ (77) | \$ 179 | \$ (1,303) | \$ (2,546) | \$ (3,747) | \$ (1,189) | \$ (2,533) | \$ (4,491) | \$ (9,499) | \$ (12,000) | \$ (13,500) |
| Cash flow from financing activities | | | | | | | | | | | | | | | | | |
| 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) | - | - | - |
| Net cash from (used in) financing activities | \$ (18,493) | \$ (2,313) | \$ (2,673) | \$ (5,747) | \$ (1,684) | \$ (12,417) | \$ (2,178) | \$ (429) | \$ (2,333) | \$ (1,876) | \$ (6,816) | \$ (4,561) | \$ (3,790) | \$ (4,301) | \$ (14,266) | \$ (8,624) | \$ (10,762) |
| 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) | 5,096 | 7,893 | 11,433 |
| 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 | 50,895 | 58,788 |
| Cash and cash equivalents at end of year | \$ 33,468 | \$ 9,986 | \$ 11,581 | \$ 14,638 | \$ 19,687 | \$ 19,687 | \$ 12,189 | \$ 11,435 | \$ 31,029 | \$ 45,799 | \$ 45,799 | \$ 45,033 | \$ 45,776 | \$ 38,611 | \$ 50,895 | \$ 58,788 | \$ 70,221 |
| Free cash flow (operating cash flow less cap-ex) | \$ 10,397 | \$ (21,286) | \$ 4,031 | \$ 4,545 | \$ 5,144 | \$ (7,566) | \$ (6,583) | \$ (955) | \$ 22,807 | \$ 15,377 | \$ 30,646 | \$ 4,089 | \$ 4,478 | \$ (2,031) | \$ 19,261 | \$ 16,517 | \$ 22,195 |
| Free cash flow/share | \$ 0.97 | \$ (2.03) | \$ 0.39 | \$ 0.45 | \$ 0.51 | \$ (0.74) | \$ (0.65) | \$ (0.10) | \$ 2.29 | \$ 1.52 | \$ 3.07 | \$ 0.41 | \$ 0.45 | \$ (0.21) | \$ 1.94 | \$ 1.67 | \$ 2.27 |

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 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Assets | | | | | | | | | | | | | | | |
| 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 | \$ 50,895 | \$ 58,788 | \$ 70,221 |
| 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 | 22,514 | 22,660 | 23,347 |
| 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 | 71,167 | 68,974 | 68,822 |
| 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 |
| Total current assets | 148,547 | 137,069 | 136,497 | 131,803 | 136,786 | 131,759 | 129,143 | 145,918 | 160,678 | 171,033 | 176,471 | 176,811 | 182,357 | 188,346 | 200,459 |
| 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 |
| Total assets | 291,641 | 282,035 | 280,501 | 275,416 | 275,766 | 415,234 | 386,973 | 394,316 | 402,549 | 408,961 | 418,479 | 416,033 | 417,270 | 423,625 | 437,984 |
| Liabilities and shareholders' equity | | | | | | | | | | | | | | | |
| 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 | 25,080 | 25,595 | 25,403 |
| 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 | 16,839 | 16,531 | 17,141 |
| 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 | 45,136 | 41,229 | 42,479 |
| 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 | 16,820 | 16,823 | 17,156 |
| Total current liabilities | 81,819 | 73,277 | 67,463 | 65,714 | 72,271 | 96,308 | 95,807 | 110,484 | 118,371 | 127,440 | 130,449 | 134,252 | 130,704 | 126,756 | 128,507 |
| 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 | 2,132 | 2,145 | 2,203 |
| Total liabilities | \$ 101,332 | \$ 93,030 | \$ 93,335 | \$ 91,470 | \$ 97,096 | \$ 241,194 | \$ 234,792 | \$ 240,852 | \$ 244,519 | \$ 251,260 | \$ 258,217 | \$ 256,586 | \$ 257,194 | \$ 253,635 | \$ 255,871 |
| 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 | 160,076 | 169,990 | 182,112 |
| Total liabilities and shareholders' equity | \$ 291,641 | \$ 282,035 | \$ 280,501 | \$ 275,416 | \$ 275,766 | \$ 415,234 | \$ 386,973 | \$ 394,316 | \$ 402,549 | \$ 408,961 | \$ 418,479 | \$ 416,033 | \$ 417,270 | \$ 423,625 | \$ 437,984 |
| 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 |
| Selected Financial Data | | | | | | | | | | | | | | | |
| 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 | 68,610 | 76,503 | 87,936 |
| 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 | \$ 6.97 | \$ 7.88 | \$ 9.10 |
| 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) | \$ (7.12) | \$ (6.39) | \$ (5.23) |
| 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 | 1.40 | 1.49 | 1.56 |
| 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 | \$16.26 | \$17.50 | \$18.84 |
| 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 | \$13.84 | \$15.05 | \$16.38 |
| ROA | 2.8% | 2.1% | 0.6% | 0.6% | NM | 1.2% | NM | 2.2% | NM | 3.9% | 5.7% | 2.9% | 3.9% | 4.4% | 5.2% |
| ROE | 4.3% | 3.2% | 1.0% | 1.0% | NM | 2.8% | NM | 5.7% | NM | 10.2% | 14.9% | 7.6% | 10.2% | 10.9% | 12.6% |

Sources: Company reports and Sidoti & Company, LLC estimates

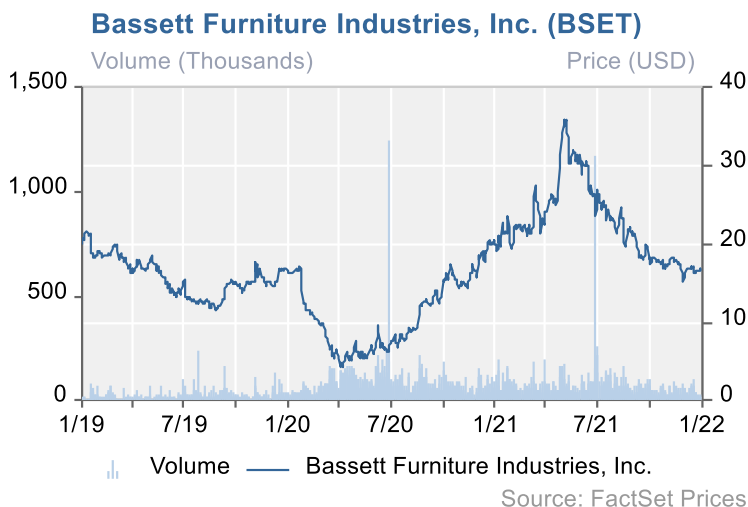
Appendix
Required Disclosures

Required Disclosures

Bassett Furniture Industries, Inc. (BSET-\$16.77) NR Price Target: \$36 Risk Rating: M

Rating and Price Target History Table

| Action | Date | Px | Rating | PT | Risk Rating |
|--------|----------|------|--------|----|-------------|
| 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 | |
| PT | 9/30/21 | 18.2 | | 36 | |
| PT | 10/20/21 | 17.8 | | 36 | |



| | | | |
|------------------|--|------------------------------|---|
| Valuation | We maintain our Moderately Risky rating on BSET shares and \$36 price target. Despite our tempered EPS estimates, we argue that BSET shares remain undervalued, especially as we still expect Bassett to profit from demand and backlogs that are higher than pre-COVID levels along with previous unprofitable store closings and management leveraging its largely domestic manufacturing footprint. 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 roughly 15x. Our \$36 price target is based on 15x (consistent with the historical average) our F2023 EPS forecast of \$2.37. | | |
| Key Risks | The economy | Raw material price inflation | Longer-than expected supply chain constraints |

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