HOFSTRA UNIVERSITY

GROUP ANNUAL REPORT PROJECT
THE LOVESAC COMPANY
GROUP # 2

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ACCOUNTING 203 SECTION 01
NOVEMBER 1 2023

Pledge of Academic Honesty

I, Alexander Caliendo, pledge my honor that I have done this work with honesty and integrity without giving or receiving unauthorized assistance.
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Part I: Company Background & Financial Overview

Formal Corporate Name

The Lovesac Company

Products and Services Offered

The Lovesac Company is a furniture company that specializes in selling technologically driven high quality modern furniture. (The Lovesac Company, 2023). Lovesac offers two main product lines to consumers. One of Lovesac's main product lines is "Sactionals". (The Lovesac Company, 2023). The "Sactionals" line is a set of adaptable modern couches and sectionals that are easily customizable and adaptable. (The Lovesac Company, 2023). "Sactionals" is Lovesac's best-selling product line, constituting over 80% of the sales for fiscal years 2023, 2022 and 2021. (The Lovesac Company, 2023).Lovesac's other main product line is "Sacs". "Sacs" is a line of Durafoam filled oversized bean bags with sizes ranging from 25 to 95 pounds. (The Lovesac Company, 2023). "Sacs" constitute far less of Lovesac's total sales than "Sactionals", at 8.5% and 10.5% for fiscal years 2023 and 2022 respectively. (The Lovesac Company, 2023). In addition to "Sactionals" and "Sacs", Lovesac also sells accessories to complement their two major product lines including "Sactional specific drink holders, decorative pillows, and Footsac blankets." (The Lovesac Company, 2023).

Company Mission Statement

Company has no available mission statement.

Sources of Revenue

The Company's sales by product which are considered one segment are as follows:

	2023	2022	2021
Sactionals	$ 584,815	$ 436,588	$ 271,018
Sacs	55,145	52,478	44,975
Other	11,585	9,173	4,745
Total net sales	$ 651,545	$ 498,239	$ 320,738

State of Incorporation

The Lovesac Company is incorporated in the state of Delaware.

NAISC & SIC

The Lovesac Companies North American Industrial System Code is 449110 and it's Standard Industrial Code 57120000

Where Stocks are Traded

Lovesac Stocks trade on Nasdaq with the ticker LOVE.

Corporate Senior Officers

Auditor Name & Report on Internal Controls

Auditor Name: Deloitte & Touche LLP

Opinion on Internal Controls: The auditors stated in their opinion that Lovesac maintained effective internal control in their financial reporting with no disclaimers in conformity with GAAP, and they issued an unqualified opinion. (The Lovesac Company, 2023)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of The Lovesac Company

Opinion on the Financial Statements

We have audited the accompanying balance sheet of The Lovesac Company (the "Company") as of January 29, 2023, the related statements of operations, changes in stockholders' equity, and cash flows for the year ended January 29, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 29, 2023, and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 29, 2023, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Recent Stock Activity

Below is a Yahoo Finance chart showing Lovesac's stock activity for the last three years 10/3/2020-10/3/2022. As per the chart, Lovesac's share price increased sharply in the year 2021 reaching a high of $91.39 per share on 6/7/2021. However, beginning in late 2021, Lovesac's share price began sharply declining, and it now has a 52-week range of $17.60-$30.92 per share. As of today 10/3/2023, Lovesac opened at $19.01. The rapid decline of Lovesac's share price could be attributed to lack of investor confidence in the company's future sales in a post-pandemic economy where the furniture and fixtures industry sales at large have declined because of workers spending less time at home as they are transitioning out of remote work and back to the office. (Alexander, 2023)

Major Competitors

Some of Lovesac's major competitors are Xorbee, Wayfair, Ikea, ComfySacks, and La-Z-Boy, Ethan Allen, and Hooker Home Furnishings. (Chiffey, 2021)

Geographic Market

As of June 2023, Lovesac has 195 retail Locations across 40 different US States. (The Lovesac Company, 2023).

Executive Compensation Schedule

Summary Compensation Table

The following Summary Compensation Table summarizes the total compensation paid to or earned by each of our named executive officers for services provided to the Company for fiscal 2023.

Name and Principal Position	Year	Salary ($)[1]	Bonus ($)	Stock Awards ($)[2]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation ($)[4]	Total ($)
Shawn Nelson	2023	440,229	—	2,472,858	—	267,060	24,536	3,204,682
Chief Executive	2022	405,450	—	732,744	—	489,060	12,842	1,640,096
Officer	2021	341,847	—	1,266,865	582,677	408,000	10,914	2,610,303
Mary Fox	2023	440,404	—	2,472,858	—	667,060	12,227	3,592,548
President and Chief	2022	72,692	500,000	1,640,839	—	489,060	768	2,703,359
Operating Officer		—	—	—	—	—	—	—
Jack Krause	2023	440,229	—	1,537,620	—	267,060	24,536	2,269,444
Chief Strategy	2022	405,450	—	732,744	—	489,060	12,462	1,639,716
Officer	2021	341,847	—	1,266,865	194,222	408,000	10,914	2,221,848
Donna Dellomo	2023	412,304	—	727,391	—	208,350	23,891	1,371,936
EVP and Chief	2022	380,109	—	279,188	—	381,544	10,735	1,051,576
Financial Officer	2021	320,478	—	762,092	97,112	382,500	11,444	1,573,626

Crucial Issues Facing the Company

One current crucial issue facing Lovesac are errors in their financial statements for fiscal year ended January 29, 2023 and quarter ended April 30, 2023. (Brasseur, 2023). According to Lovesac, they believe that their operating income was overstated by $1.5 million-$2.5 million and their net income was overstated by $1.0 million-$2.0 million. (Brasseur, 2023). The errors in the financial statements are likely to expose material weaknesses in Lovesac's internal controls, and they are facing investigations from shareholders rights law firms. (Brasseur, 2023). To help rectify the matter, Lovesac's audit committee has launched an investigation and has consulted with its auditor, Deloitte. (Brasseur, 2023).

Another crucial issue facing Lovesac is their supply chain. Lovesac relies heavily on foreign suppliers, especially China, making them vulnerable to any issues that could lead to disruption In the supply chains such as tariffs, trade wars, and public health crises etc. (The Lovesac Company, 2023; Magill, 2022). As a result of the US trade war with China in 2019, and the harsh Covid-19 measures imposed by China during the pandemic, both of which had a negative impact on Lovesac's supply chain, the company decided it would diversify the countries it would outsource its production to, such as Vietnam and Mexico, to mitigate supply chain disruptions. (Magill, 2022). As per a 2022 quarter 3 earnings call, CEO of Lovesac Shawn Nelson stated that China constituted only 30% of its total production, whereas it constituted 90% of the company's production 3 years prior. (Magill, 2022).

Lastly, uncertain economic conditions are a crucial issue for Lovesac. Furniture companies are seeing a decline in sales as of the end of quarter 3 in 2023. (Delouya, 2023). Some key facilitators of this drop in revenue for the furniture industry are inflation, which is affecting the consumer's spending power, mortgage rates rising leading to people to having less money to

spend on furniture, and a shift in spending habits from in a post-Covid economy where more people were spending an increased amount on home improvement during the pandemic. (Delouya, 2023; Schott, 2022). While Lovesac's fiscal year 2024 quarter 2 sales were up from last year, if the trend of furniture sales decline continues, Lovesac's business could be negatively impacted. (Zachs Equity Research, 2023).

Financial Statement Analysis

Balance Sheet:

Lovesac's current assets decreased from $225.158 million in 2022 to $194.041 million in 2023, which is $31,117. The decrease in current assets is driven by the drastic decrease in cash and cash equivalents by $48.859 million from $92.392 million in 2022 to $43.533 in 2023. Lovesac's total assets increased from $371.579 million in 2022 to $418.054 in 2023 representing a $46,475 million increase. Total current liabilities decreased from $118.799 million in 2022 to $88.839 million in 2023 representing a $29.960 million decrease. This was caused by a $8.671 million decrease in accounts payable, a $17.105 million decrease in accrued expenses, a $3.195 million decrease in payroll payable, and a $6.556 million decrease in customer deposits. Total liabilities increased from $215.353 million in 2022 to $224.794 million in 2023 representing a $9.441 million increase. Stockholders equity increased from $156.226 million in 2022 to $193.260 in 2023 representing a $37.034 increase.

Changes in Stockholders Equity:

The Lovesac Companies stockholder's equity increased from $156.226 million in 2022 to $193.260 million in 2023 representing a $37.034 increase. The increase in stockholder's equity was driven by a $8.792 million increase in additional paid-in-capital and a $28.242 million increase in accumulated income. The total number of common stock shares outstanding increased from 15,123,338 in 2022 to 15,195,698 in 2023 representing a 72,360 share increase.

Income Statement:

The Lovesac Company's net sales increased from $498.239 million in 2022 to 651.545 in 2023 representing a $157.306 million increase. However, while net sales increased from 2022 to 2023, net income decreased by $17.658 million to $28.242 million in 2023. This decrease in net income was driven by an increase in operating expenses by $71.905 million, an increase in cost of merchandise sold by $80.825 million, and an increase in the company's tax expense where the company received a $7.638 million tax benefit in 2022 and received a tax expense of $10.658 million in 2023.

Statement of Cash Flows:

The Lovesac Company's cash and cash equivalents decreased by $48.859 million from 2022 to 2023. Lovesac lost $21.375 million from operating activities, $25.549 from investing activities, and $1.935 from financing activities.

Management Discussion & Analysis

The Lovesac Company's net sales in 2023 increased to $651.5 million from $498.2 million in fiscal 2022. This represents a $153.3 million increase, or 30.8% from 2022 to 2023. The company attributes the increase in sales to be driven by showroom sales, the largest sale type (increased by $99.5 million to $398.5 million from 2022 to 2023), internet sales (increased by $25.9 million to $176.5 million from 2022 to 2023), and other sales including pop up shops, barter inventory transactions, and shop-in-shop sales (increased by $27.9 million to $76.5 million from 2022 to 2023). Lovesac maintains that the showroom and internet sales categories increased due to their "strong promotional campaigns" and "increased marketing initiatives", and the other sales category increased due to "higher barter inventory transactions".

The Lovesac Companies cost of merchandise sold increased from $224.894 million in 2022 to $305.719 million in 2023. This represents a $80.825 million dollar increase from 2022 to 2023. Lovesac maintains that the primary drivers of the cost of their merchandise sold are raw material costs, labor costs to the countries where they source their merchandise, and logistics costs. In addition to the cost of goods sold, both selling, general and administrative expenses and advertising and marketing expenses also increased. From 2022 to 2023, selling, general, and administrative expenses increased by $54.1 million to $216.1 million, and advertising and marketing expenses increased by $14.8 million to $79.9 million.

Lovesac's company's gross profit increased from 2022 to 2023 by $72.5 million to $345.8 million, however, the gross margin decreased from 2022 to 2023 by 1.8 percent to 53%.1 of net sales. Lovesac maintains that the decrease in gross margin percentage of 180 basis points was driven by an increase in "total tariff expenses and warehousing costs" and a decrease in product margin.

The Lovesac Company's net Income decreased by $17.658 million from 2022 to 2023 to $28.242 million. A primary driver of the decrease in income was the increase in overall expenses and the companies reported tax position.

Critical Accounting Policies and Estimates

The Lovesac Company listed 4 critical accounting policies and estimates: barter arrangements, impairment of long-lived assets, merchandise inventories, and operating leases. The company states that these critical accounting policies and estimates are made in conformity with GAAP, evaluated on an on-going basis, and based off historical operations, future business plans, and other assumptions deemed to be reasonable

Critical Audit Matter

Deloitte & Touche, Lovesac's auditor, listed barter agreements as a critical audit matter because of the: "…significant estimate and assumptions management makes to determine the transaction price based on the estimated fair value of the non-cash consideration received in exchange for the media credits. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's estimate of the fair value of the sale transaction price." While Deloitte & Touche did list the barter agreements as a critical audit matter, they also stated that it does not alter their opinion on the financial statements.

Barter Arrangements — *Refer to Note 1 to the financial statements*

Critical Audit Matter Description

The Company has a bartering arrangement with a third-party vendor, in which the Company sells returned open-box inventory in exchange for media credits. Barter sale transactions with commercial substance are recorded at a transaction price based on the estimated fair value of the non-cash consideration of the media credits to be received and the revenue is recognized when control of inventory is transferred, which is when the inventory is picked up from the Company's warehouse. Fair value is estimated using various considerations including the cost of similar media advertising if transacted directly, the expected sales price of product given up in exchange for the media credits, and the expected usage of media credits prior to expiration based on a marketing spend forecast. For the year ended January 29, 2023, the Company recognized $21.3 million of barter sales in exchange for media credits. The Company recognizes an asset for media credits which is subsequently evaluated for impairment at each reporting period for any changes in circumstances. As of January 29, 2023, the Company had $25.2 million of unused media credits and did not recognize any impairment.

We identified the barter arrangement as a critical audit matter because of the significant estimate and assumptions management makes to determine the transaction price based on the estimated fair value of the non-cash consideration received in exchange for the media credits. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's estimate of the fair value of the sale transaction price.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to barter arrangement included the following, among others:

- We tested the effectiveness of controls over the determination of the transaction price
- We read the underlying barter transaction agreement
- For a sample of barter sale transactions, we tested that the sale occurred and the estimated fair value of the sale transaction price, as follows:
  - Obtained shipping documents that evidenced the transfer of control of the related inventory
  - Compared management's independent estimate of advertising costs to the actual advertising costs incurred under the barter arrangement from the third-party vendor
  - Compared the transaction price of the inventory sold through the bartering agreement to the transaction price of like inventory sold to other third-party customers
  - Tested the underlying assumptions to management's analysis to determine their ability to utilize media credits by 1) making inquiries of management related to their projected advertising and media spend, 2) performing a lookback analysis of total marketing spend and specific marketing spend with the third-party vendor, and 3) comparing the forecasts to the amounts included in the overall business forecast as communicated to the Board of Directors

/s/ Deloitte & Touche LLP

Stamford, Connecticut
March 29, 2023

We have served as the Company's auditor since fiscal 2023.

Part II: ESG Review

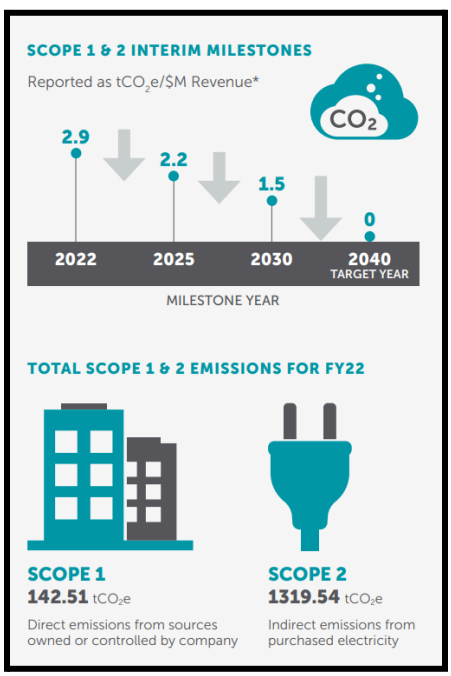
The Lovesac company is committed to a more sustainable future and has split their intentions into three categories: Love, earth, and purpose. They create their pieces with environmental, social, and governance structures in mind. As of FY 2022, The Lovesac company has set ambitious goals for their sustainability and governance. Some of these goals include reaching zero waste, zero emissions, and over 50% of women and minorities in their leadership positions by 2040 (The Lovesac Company, 2022). The company is also focused on continuously gathering data from suppliers and manufacturers to ensure a more efficient process from beginning to end. The FY 2022 are the statistics and metrics they are starting off with and plan on building upon.

1. Amount of purchased electricity from renewable sources and progress towards achieving that goal

The Lovesac company has recently begun to set their goals and expectations in terms of desired performance within their energy sector throughout this past year. The company is committed to using 100% renewable energy across their locations down the line. As of FY2022, Lovesac purchased 3,516,000 kWh of electricity. (Lovesac, 2022) The company does not own any physical operating locations. It operates through what Lovesac calls "touchpoints" which are basically pop-up-shops or showrooms. Said purchased electricity totals about 81% of energy used at their touchpoints throughout the fiscal year. This amount derives from the electricity used to power their showrooms and kiosks. (Lovesac, 2022) Lovesac is consistently working on collecting data from their touchpoints in order to reduce overall energy consumption.

2. Scope 1 & 2 GHG emissions goals and progress

EMISSIONS & CLIMATE						
Total CO_2e Scope 1	tCO_2e	–	142.51	N/A[12]	0	2040
Total CO_2e Scope 2	tCO_2e	–	1319.54		0	2040
Total CO_2e per $million revenue Scope 1	tCO_2e/$M	–	0.29		0	2040
Total CO_2e per $million revenue Scope 2	tCO_2e/$M	–	2.65		0	2040



The Lovesac company has recently set a goal and strategy to be at zero emissions by 2040 (Lovesac, 2022). The Scope 1 and 2 emissions were calculated with the GHG Protocol Corporate Accounting and Reporting Standard for FY 2022 (Lovesac, 2022). The company plans on using the measures

set throughout this fiscal year as a base for future measurements. Scope 1 specifically refers to direct emissions emitted through business operations. Scope 2, on the other hand, refers to indirect emissions emitted. Some examples of these would include purchased electricity to power their "touchpoints" or pop-up-shops. Also, emissions that may be incurred through Lovesac's manufacturing or transporting partners. The chart above reflects the amount of emissions the company produces per 1 million in revenue. As can be noted, for FY 2022, there were almost 3 tonnes of carbon emissions incurred per million dollars in revenue. In total, there was about 143 tCO2e expensed just from Scope 1. Scope 2 included a much larger number, coming in at nearly 1320 tCO2e from indirect emissions (Lovesac, 2022). Given that Lovesac relies on outside sources for much of its energy and such, it makes absolute sense that this number is significantly higher. The Lovesac company has been proactive in ensuring their partners and suppliers are aware of their zero emissions by 2040 goal (Lovesac, 2022). The company understands it will be a tough journey, but also is aware of how important the impact will be.

3. Scope 3 emissions goals & progress

SCOPE 3 MANAGEMENT PLAN

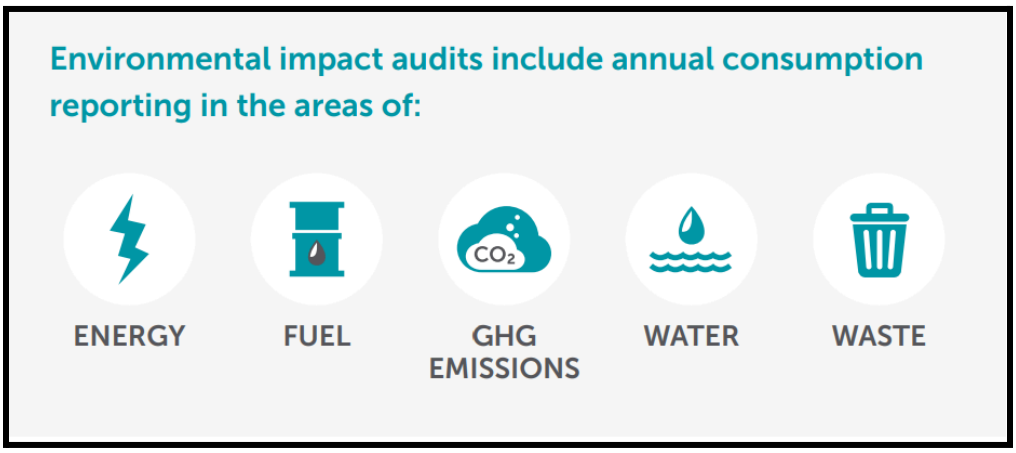
High Effort | Medium Effort | Low Effort

	Purchased Goods and Services	Transportation and Distribution	Waste Generated in Operations (owned and operated)	Employee Travel and Commuting	Use of Solid Products	End-of-Life Treatment of Product
GAME CHANGING (High GHG Reduction)	Work with Suppliers to Reduce Carbon Footprint	Work with Transport Providers to Reduce Carbon Footprint			Conduct Product LCAs	
	Reduce Impact of Raw Materials					
INCREMENTAL CHANGE (Low GHG Reduction)	Collect Energy and Raw Data Material from Suppliers	Collect Ocean and Long-Haul Transport Data	Reduce Showroom and Office Waste	Develop Low-Emissions Travel Strategy	Reduce Use Phase Impacts of Products	Develop Programs to Reduce End-of-Life Impact
		Collect Final-Mile Transport Data	Collect Waste Generation Data from Touchpoints and Suppliers	Collect Employee Travel and Commuting Data		
		Collect Warehousing Data				

Although goals have begun to be set for Lovesac's scope 3, there is still data being collected in order to provide more accurate measurements. The Lovesac company has begun what it calls a "Sustainable Supply Chain" program (Lovesac, 2022). This program will connect the company with its manufacturing suppliers further and include them in an environmental audit program. The overall goal is to promote transparency between all parties involved. The company's ESG report will soon expand to include Scope 3 as data becomes more accurate and available. As can be seen in the Scope 3 Management Plan chart above, the areas of immediate concern are the carbon footprint and impact of raw materials. As the effect of these are lessened, the Lovesac company will be in a much better position. Aside from these issues, waste

generation and employees' commutes are the next most pressing factors. Some elements of less importance include emissions from travel as well as warehousing.

4. Collection of GHG data from strategic suppliers & progress made



The Lovesac company does not provide specific data from their strategic suppliers and their progress. However, the company has stated that through their Sustainable Supply Chain program, the company is encouraging their suppliers to join them on a path of further sustainability and development. As part of this partnership, suppliers will undergo constant inspections for an environmental audit. The image above, from The Lovesac Company ESG FY2022, shows all areas that will be reported upon. The company's goal is to reach 100% participation on said program from their suppliers and manufacturers. (The Lovesac Company, 2022). Aside from this, the company is making the change towards 100% LED lighting which is much more efficient. As of now, they are 55% LED powered, compared to FY 2021, where they were 44% LED powered (The Lovesac Company, 2022).

5. Waste management goals

The company has set a goal of having zero waste by 2040 (The Lovesac Company, 2022). The Lovesac company is aware that fast-to-produce products have also been the most to trash our landfills and account for a large portion of waste. Therefore, the company is acting consciously and is focused on creating their pieces with repurposed materials and minimizing waste. Given that most of the company's spaces are not their own, most waste and emissions incurred are dealt with by a third party, most likely the property management company or such. The Lovesac Company is making a concerted effort to track down this data and join forces with these third parties in order to gain more control of their operations and its environmental outputs. For the company, it all starts with utilizing the best materials possible to create their vision. The goal is to maximize life and therefore use of the materials. Another example where the company is taking initiative is through their packaging and transportation. Styrofoam and wood have completely been replaced, and any cardboard packing materials derive from 80% recycled contents. (The Lovesac Company, 2022).

6. Governance metrics

** Only four years available

Name	Year	Salary	Bonus	Stock Awards	Total Compensation
Fox, Mary	2023	440,404	N/A	2,472,858	1,336,852
President & COO	2022	72,692	500,000	1,640,839	1,708,722
	2021	N/A	N/A	N/A	86,667
	2020	N/A	N/A	N/A	N/A
Nelson, Shawn David	2023	440,229	N/A	2,472,858	1,555,963
CEO/Founder /Director	2022	405,450	N/A	732,744	2,539,284
	2021	341,847	N/A	1,266,865	760,761
	2020	382,692	N/A	1,985,408	397,123
Krause, Jack A.	2023	440,229	N/A	1,537,620	1,555,963
Director	2022	405,450	N/A	732,744	2,538,904
	2021	341,847	N/A	1,266,865	760,761
	2020	382,692	N/A	721,851	397,123
Romig, Shirley	2023	N/A	N/A	N/A	30,000
Independent Director	2022	N/A	N/A	N/A	60,000
	2021	N/A	N/A	N/A	45,000
	2020	N/A	N/A	N/A	40,000

** All data collected from Standard & Poor's database

Above we have a four-year compensation breakdown of different executives and directors from The Lovesac company. As can be seen, the only bonus data available was for the president and

COO, Mary Fox, with a half a million dollars for a bonus. With the exception of Shirley Romig, all executives and directors included in the table receive over 1 million dollars in just stock awards, it is important to note that these are restricted stock awards. In terms of overall compensation earned and received, the lowest amounts come from the year 2020. The contrast from 2020 to 2023 is a huge difference, with all clearing over a million dollars in compensation. Again, this is aside from Shirley Romig, who is an independent director.

7. 6- year total GHG metrics
   The Lovesac Company does not provide six years worth of GHG metrics as they have just started collecting data in FY 2021 and reporting.
8. 6 year air pollutant emissions by type

The Lovesac Company does not provide six years worth of air pollutant emissions by type as they have just begun collecting data for this.

Part 3A: Income Statement Analysis

1. Horizontal Analysis

HORIZONTAL ANALYSIS					
FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021 (amounts in thousands)					
	2023	%	2022	%	2021
Net Sales	651545	31%	498239	55%	320738
Cost of Merchandise Sold	305719	36%	224894	54%	145966
Gross Profit	345826	27%	273345	56%	174772
Operating Expenses					
Selling, general and administration expenses	216103	33%	161967	45%	111354
Advertising and Marketing	79864	23%	65078	55%	41925
Depreciation and Amortization	10842	38%	7859	19%	6613
Total Operating Expenses	306809	31%	234904	47%	159892
Operating Income	39017	1%	38441	158%	14880
Interest Expense, net	-117	-35%	-179	167%	-67
Net Income before taxes	38900	2%	38262	158%	14813
(Provision for) benefit from income taxes	-10658	-240%	7638	-8981%	-86
Net Income	28242	-38%	45900	212%	14727

2. Vertical Analysis

VERTICAL ANALYSIS						
FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021 (amounts in thousands)						
	2023	% of Revenue	2022	% of Revenue	2021	% of Revenue
Net Sales	651545	100%	498239	100%	320738	100%
Cost of Merchandise Sold	305719	47%	224894	45%	145966	46%
Gross Profit	345826	53%	273345	55%	174772	54%
Operating Expenses						
Selling, general and administration expenses	216103	33%	161967	33%	111354	35%
Advertising and Marketing	79864	12%	65078	13%	41925	13%
Depreciation and Amortization	10842	2%	7859	2%	6613	2%
Total Operating Expenses	306809	47%	234904	47%	159892	50%
Operating Income	39017	6%	38441	8%	14880	5%
Interest Expense, net	-117	0%	-179	0%	-67	0%
Net Income before taxes	38900	2%	38262	8%	14813	5%
(Provision for) benefit from income taxes	-10658	-2%	7638	2%	-86	0%
Net Income	28242	4%	45900	9%	14727	5%

A. Net Sales

1. Horizontal Analysis

Lovesac witnessed a noteworthy surge in its net sales from 2021 to 2023. The company achieved a remarkable 56% growth in gross profit during the fiscal year 2022. Lovesacs' 55% increase in net sales in 2021, just after Covid-19 pandemic shows the potential of this furniture retailer company in the modern furniture market.

2. Vertical Analysis

The gross profit showed an upward trend from 2021 to 2023. Lovesac made continuous gross profit of average 54% for these consecutive fiscal years.

B. Operating Income

1. Horizontal Analysis

The operating income of this company experienced a substantial increase of 158% from the year 2021 to 2022, indicating a significant improvement in the company's operational profitability over the specified period. But it is noted that the company saw a modest 1% increase in operating income by the end of 2023, suggesting a slight improvement in its operational profitability compared to the previous period.

2. Vertical Analysis

In a vertical analysis of Lovesac's income statement, the percentage of operating income showed a consistent upward trend over the three years. Specifically, operating income represented 5% of total revenue in 2021, which increased to 8% in 2022, and further grew to 6% in 2023. This indicates a positive trajectory in the proportion of operating income relative to total revenue over the analyzed period.

C. Net Income

1. Horizontal Analysis

In a horizontal analysis of Lovesac's net income, there was a substantial positive change from 2021 to 2022, with net income increasing by an impressive 212%. However, the subsequent year, 2023, saw a significant negative change, with net income declining by 38%. This indicates a fluctuation in net income performance over the two-year period, with a notable peak in 2022 followed by a decline in 2023. Because of violations of security laws Lovesac Co. is under investigation for overstated statements and have experienced significant losses for the fiscal year of 2023.

2. Vertical Analysis

The percentage of net income relative to total revenue exhibited variability over the three years. Specifically, net income accounted for 5% of total revenue in 2021, increased to 9% in 2022, and then decreased to 4% in 2023. This pattern suggests a fluctuating trend in the proportion of net income relative to total revenue, signaling potential shifts in the company's profitability over the analyzed period.

Part 3B: Cash Flow Analysis

THE LOVESAC COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021

(amounts in thousands)	2023	2022	2021
Cash Flows from Operating Activities			
Net income	$ 28,242	$ 45,900	$ 14,727
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization of property and equipment	10,454	7,154	6,100
Amortization of intangible assets	388	705	513
Amortization of deferred financing fees	164	91	88
Net loss on disposal of property and equipment	45	464	5
Impairment of long-lived assets	—	554	245
Equity-based compensation	10,450	5,859	4,681
Deferred rent	—	—	3,641
Non-cash lease expense	19,265	14,953	—
Deferred income taxes	416	(9,836)	—
Gain on recovery of insurance proceeds - lost profit margin	—	(632)	—
Changes in operating assets and liabilities:			
Trade accounts receivable	(921)	(4,034)	2,675
Merchandise inventories	(11,470)	(56,819)	(14,017)
Prepaid expenses and other current assets	890	(2,459)	(2,060)
Other assets	(21,459)	—	—
Accounts payable and accrued expenses	(33,002)	39,195	19,584
Operating lease liabilities	(18,281)	(14,400)	—
Customer deposits	(6,556)	7,323	4,339
Net Cash (Used in) Provided by Operating Activities	(21,375)	34,018	40,521
Cash Flows from Investing Activities			
Purchase of property and equipment	(25,242)	(15,887)	(8,374)
Payments for patents and trademarks	(307)	(601)	(678)
Net Cash Used in Investing Activities	(25,549)	(16,488)	(9,052)
Cash Flows from Financing Activities			
Taxes paid for net share settlement of equity awards	(1,658)	(3,583)	(1,717)
Proceeds from the exercise of warrants	—	104	100
Payment of deferred financing costs	(277)	—	(50)
Net Cash Used in Financing Activities	(1,935)	(3,479)	(1,667)
Net Change in Cash and Cash Equivalents	(48,859)	14,051	29,802
Cash and Cash Equivalents - Beginning	92,392	78,341	48,539
Cash and Cash Equivalents - End	$ 43,533	$ 92,392	$ 78,341
Supplemental Cash Flow Disclosures			
Cash paid for taxes	$ 10,670	$ 1,121	$ 86
Cash paid for interest	$ 192	$ 95	$ 85
Non-cash investing activities:			
Asset acquisitions not yet paid for at end of year	$ 4,103	$ —	$ —

Fiscal Year Ended January 29, 2023:

1. **Net Cash Used in Operating Activities**: ($21,375,000)

A. Net income: $28,200,000
B. Non-cash items: $41,200,000
- Depreciation and amortization
- Loss on disposal of property and equipment
- Impairment of property and equipment
- Equity-based compensation
- Non-cash operating lease cost

C. Changes in working capital and other activities: ($90,825,000)
- Increases:
  - Inventory: $11,500,000
  - Trade accounts receivable: $900,000
  - Other assets: $21,400,000
- Decreases:
  - Accounts payable and accrued expenses: ($33,000,000)
  - Operating lease liabilities: ($18,300,000)
  - Customer deposits: ($6,600,000)
  - Prepaid and other current assets: $900,000

2. **Net Cash Used in Investing Activities**: ($25,549,000)

A. Primarily related to capital expenditures for new showroom openings, remodeling existing showrooms, and acquiring intangible assets.

3. **Net Cash Used in Financing Activities**: ($1,935,000)

A. Taxes paid for net share settlement of equity awards: ($1,600,000)
B. Payments of deferred financing costs: ($300,000)

4. **Decrease in Cash and Cash Equivalents**: ($48,859,000)

5. **Cash and Cash Equivalents at End of Period**: $43,533,00

Fiscal Year Ended January 30, 2022:

1. **Net Cash Provided by Operating Activities**: $34,018,000
   A. Net income: $45,900,000
   B. Non-cash items: $19,900,000
   - Depreciation and amortization
   - Loss on disposal of property and equipment
   - Equity-based compensation

   C. Changes in working capital and other activities: $31,200,000.

- Increases:
  - Inventory: $56,800,000
  - Trade accounts receivable: $4,000,000
  - Prepaid expenses and other current assets: $2,500,000
- Decreases:
  - Accounts payable and accrued expenses: ($39,200,000)
  - Operating lease liabilities: ($14,400,000)
  - Customer deposits: ($7,300,000)

2. Net Cash Used in Investing Activities: ($16,488,000)

A. Primarily related to capital expenditures for new showroom openings, remodeling existing showrooms, and acquiring intangible assets.

3. Net Cash Used in Financing Activities: ($3,479,000)

A. Taxes paid for net share settlement of equity awards: ($3,600,000)

B. Proceeds from the exercise of warrants: $100,000

4. Increase in Cash and Cash Equivalents: $14,051,000

5. Cash and Cash Equivalents at End of Period: $92,392,000

Fiscal Year Ended January 31, 2021:

1. **Net Cash Provided by Operating Activities**: $40,521,000
   A. Net income: $14,700,000
   B. Non-cash items: $15,300,000
   - Depreciation and amortization
   - Loss on disposal of property and equipment
   - Equity-based compensation

   C. Changes in working capital and other activities: $10,500,000.

   - Increases:
     - Inventory: $14,000,000
     - Prepaid expenses and other current assets: $2,100,000
   - Decreases:
     - Accounts receivable: ($2,700,000)
     - Accounts payable and accrued expenses: ($19,600,000)
     - Customer deposits: ($4,300,000)

2. Net Cash Used in Investing Activities: ($9,052,000)

A. Primarily related to capital expenditures for new showroom openings, remodeling existing showrooms, and acquiring intangible assets.

3. Net Cash Used in Financing Activities: ($1,667,000)

A. Taxes paid for net share settlement of equity awards.

4. Increase in Cash and Cash Equivalents: $29,802,000

5. Cash and Cash Equivalents at End of Period: $78,341,000

The cash flow analysis is presented in a tabular form:

Fiscal Year Ended	January 29, 2023	January 30, 2022	January 31, 2021
Net Cash from Operating Activities	($21,375,000)	$34,018,000	$40,521,000
-Net Income	$28,200,000	$45,900,000	$14,700,000
-Non-Cash Items	$41,200,000	$19,900,000	$15,300,000
-Changes in Working Capital and Other Activities	($90,825,000)	$31,200,000	$10,500,000
Net Cash from Investing Activities	($25,549,000)	($16,488,000)	($9,052,000)
Net Cash from Financing Activities	($1,935,000)	($3,479,000)	($1,667,000)
Change in Cash and Cash Equivalents	($48,859,000)	$14,051,000	$29,802,000
Cash and Cash Equivalents at the End of the Period	$43,533,000	$92,392,000	$78,341,000

Part 3C: Ratio & Trend Analysis of Company's Financial Statements

To measure the financial success and health of Lovesac, we calculated a list of different profitability ratios, turnover/efficiency ratios, liquidity ratios, and solvency ratios from fiscal years 2021, 2022, and 2023, based on the financial statements from those respective years. Moreover, we also included the same financial ratios for two of Lovesac's major competitors Ethan Allen and Hooker Home Furnishings for those same years and the home furnishings industry average (wherever possible) based on data found on the S&P Net Advantage Financial Database

Profitability Ratios

1. Gross Profit Margin Ratio (GPM)

Lovesac

- Gross Profit Margin Ratio (GPM): 2023 = 53.07%, 2022 = 55%, 2021 =54%

Ethan Allen

- Gross Profit Margin Ratio (GPM): 2023 = 61%, 2022 = 58%, 2021 = 57.40%

Hooker Furniture

- Gross Profit Margin Ratio (GPM): 2023 = 20%, 2022 = 17.17%, 2021 = 20.90%

Conclusion

Gross profit margin is the ratio of costs subtracted from the revenue. Lovesac's gross profit rose from 54% in 2021 to 55% in 2022. However, the company observed a 2% decrease in 2023.

As shown on the chart Lovesac has shown stable gross profit margin ratios for these three consecutive years. For three straight years, Lovesac Co. (Est. 1995) has shown an almost similar gross profit ratio to the Ethan Allen Co. (1932). And has shown higher gross profit margin for the past three years consistently over Hooker Furnishing (Est.1924).

2. Profit Margin Ratio (PMR)

Lovesac

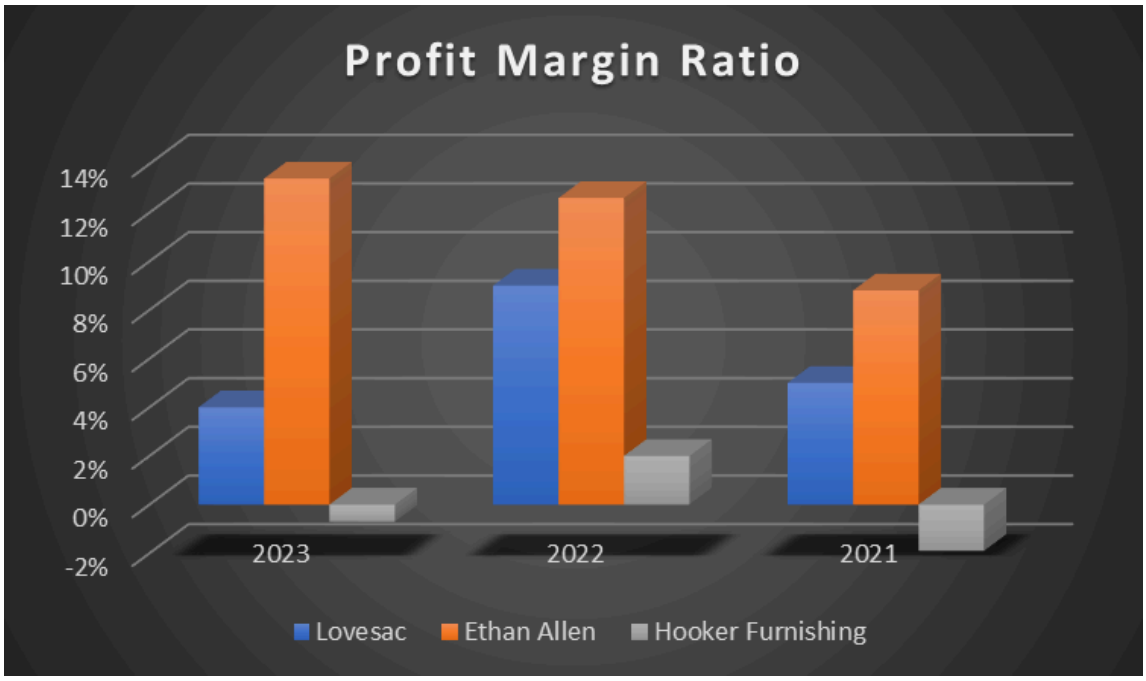
- Profit Margin Ratio (PMR): 2023 = 4%, 2022 = 9%, 2021 = 5%

Ethan Allen

- Profit Margin Ratio (PMR): 2023 = 13%, 2022 = 13%, 2021 = 8.8%

Hooker Furniture

- Profit Margin Ratio (PMR): 2023 = (0.70) %, 2022 = 2%, 2021 = (1.90) %



Conclusion

The profit margin ratio calculates the percentage of profit generated by each sales dollar. It is the ratio of net income to net sales. The profit margin ratio for 2021 was 5%, which went up to 9% in 2022. In 2023 Lovesac experienced a 5% drop in its profit margin ratio.

In the case of Profit Margin ratios Lovesac has shown the best performance for the year 2022 but a 5% decrease for 2023 potentially signaling a challenge in maintaining previous levels of profitability as compared to its potential competitor Ethan Allen. But Lovesac has performed better as compared to Hooker Furnishing.

3. Return on Assets (ROA)

Lovesac

- Return on Assets (ROA): 2023 = 7%, 2022 = 17%, 2021 = 10%

Ethan Allen

- Return on Assets (ROA): 2023 = 11.40%, 2022 = 11.90%, 2021 = 7.60%

Hooker Furniture

- Return on Assets (ROA): 2023 = 3%, 2022 = 2.50%, 2021 = 4.90%

Conclusion

ROA is nothing but a return earned on investment in assets. The rate of Return on assets for Lovesac increased from 10% in 2021 to 17% in 2022. But observed a 10% decrease in fiscal year 2023 which is a sudden drop after the 10% increase.

Within the provided profitability ratios, Lovesac Co. has shown a higher return on assets for two consecutive years over Ethan Allen. But Lovesac experienced a 10% decrease for the fiscal year of 2023. Lovesac also performed higher as compared to Hooker Furnishing for three consecutive years. Lovesac's return on assets ratio is higher than the home furnishing industry average in 2021 (5.4%), 2022 (4.2%), and the latest number posted for 2023 (3.3%). (FY 2023 final industry average not yet posted)

4. Return On Equity (ROE)

Lovesac

- Return On Equity (ROE): 2023 = 16%, 2022 = 35%, 2021 = 15%

Ethan Allen

- Return On Equity (ROE): 2023 = 24.10%, 2022 = 27.20%, 2021 = 17.70%

Hooker Furniture

- Return On Equity (ROE): 2023 = (1.70)%, 2022 = 4.50%, 2021 = (3.90)%

Conclusion

Return on Equity is calculated to find the return on a shareholder's investment. It is the ratio of Net income to Average Stockholders equity. Lovesac observed a 20% increase in its return on equity from 2021 to 2022 and a sudden 19% decrease for the year 2023.

The return on equity for 2022 was around 35%, a sudden jump from 15% in 2021. Lovesac experienced a higher return on equity as compared to Ethan Allen for the fiscal year of 2022. And made consistent performance as compared to underperforming Hooker furnishing. This performance indicates a higher amount of net profit after taxes and expenses. Lovesac's return on equity ratio is higher than the home furnishing industry average in 2021 (12.7%), 2022 (7.1%), and lower than the number posted for 2023 (20%). (FY 2023 final industry average not yet posted)

5. Earnings Per Share (EPS)

Lovesac

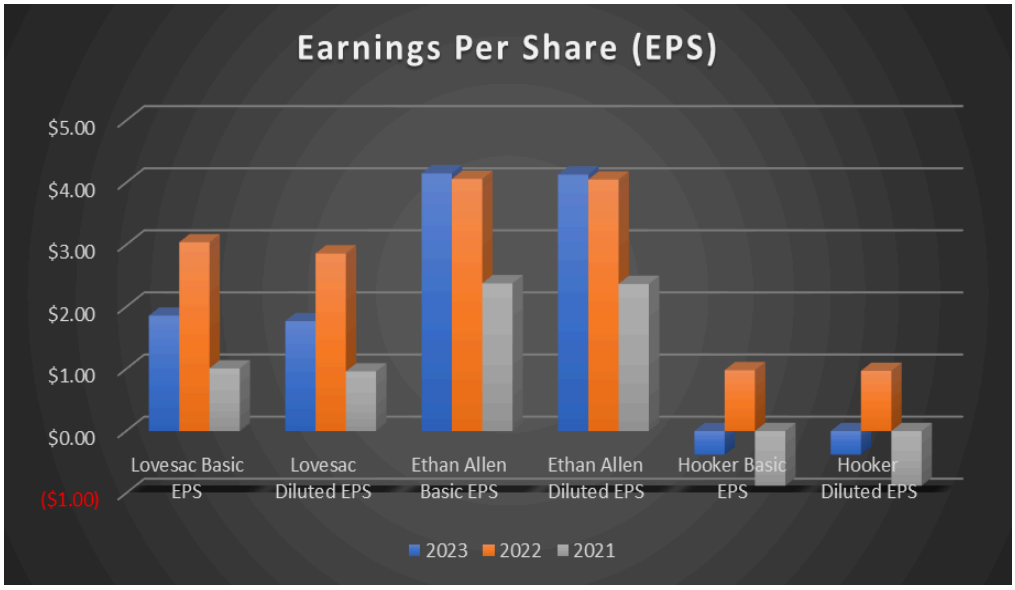
- Basic EPS: 2023 = $1.86, 2022 = $3.04, 2021 = $1.01
- Diluted EPS: 2023 = $1.77, 2022 = $2.86, 2021 = $0.96

Ethan Allen

- Basic EPS: 2023 = $4.15, 2022 = $4.06, 2021 = $2.38
- Diluted EPS: 2023 = $4.13, 2022 = $4.05, 2021 = $2.37

Hooker Furniture

- Basic EPS: 2023 = $(0.38), 2022 = $0.98, 2021 = $(0.88)
- Diluted EPS: 2023 = $(0.38), 2022 = $0.97, 2021 = $(0.88)



Conclusion

Ethan Allen outperforms Lovesac and Hooker in EPS. Its significantly higher EPS suggests stronger profitability, possibly due to better operational efficiency, higher net income, or fewer outstanding shares. This higher EPS can make Ethan Allen more appealing to investors seeking companies with robust profitability and growth potential. Conversely, Hooker lags both companies in EPS, indicating lower earnings per share, which could be due to reasons such as lower net income or a higher number of outstanding shares.

6. The Price-to-Earnings (P/E)

Lovesac

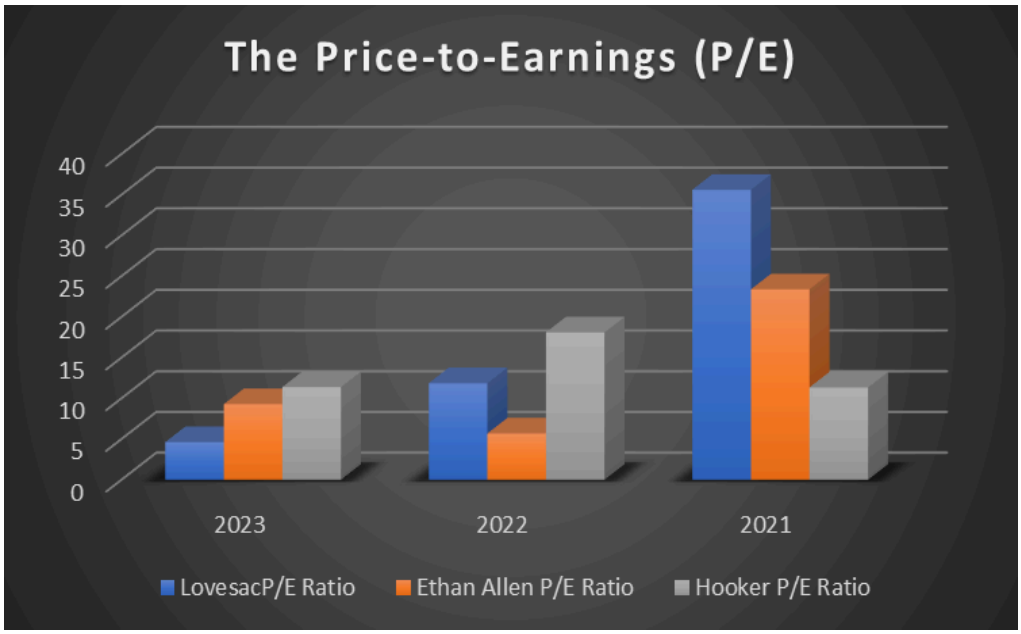
- P/E Ratio: 2023 = 14.63, 2022 = 11.87, 2021 = 35.62

Ethan Allen

- P/E Ratio: 2023 = 9.34, 2022 = 5.7, 2021 = 23.4

Hooker Furniture

- P/E Ratio: 2023 = 11.4, 2022 = 18.11, 2021 = 11.35



Conclusion

A lower P/E ratio doesn't necessarily mean a company is performing poorly; it could indicate potential undervaluation or a cautious market sentiment. Conversely, a higher P/E ratio might reflect higher growth prospects or investor optimism.

Here, Ethan Allen's lower P/E ratio suggests investors are currently more conservative about the company's earnings potential or growth compared to Lovesac and Hooker. This can affect investment decisions based on the perceived future potential for growth and earnings of each company. Lovesac's P/E ratio exceeded the home furnishings industry average in 2021 (13.8), was below industry average in 2022 (17.7), and is currently exceeding the latest industry average posted in 2023 (5.9). (FY 2023 final industry average not yet posted.

Turnover/Efficiency Ratios

1. Asset Turnover Ratio

Lovesac

- Asset Turnover Ratio: 2023 = 1.65, 2022 = 1.83, 2021 = 2.16

Ethan Allen

- Asset Turnover Ratio: 2023 = 1.1, 2022 = 1.2, 2021 = 1

Hooker Furniture

- Asset Turnover Ratio: 2023 = 1.5, 2022 = 1.6, 2021 = 1.4

Conclusion

A higher asset turnover ratio generally indicates better efficiency in asset utilization, signaling that the company is using its assets effectively to generate sales. In this case, Lovesac stands out for its ability to generate more sales per dollar of assets, reflecting strong efficiency in its asset utilization compared to Ethan Allen and Hooker. This efficiency could be due to various factors such as effective inventory management, faster collection of receivables, or better overall operational effectiveness. Lovesac's asset ratio is higher than the home furnishing industry average in 2021 (.9), 2022 (.9), and the latest number posted for 2023 (.8). (FY 2023 final industry average not yet posted)

2. **Receivables Turnover**

Lovesac

- Receivables Turnover: 2023 = 72.33, 2022 = 76.30, 2021 = 54.82

Ethan Allen

- Receivables Turnover: 2023 = 55.3, 2022 = 62.8, 2021 = 80.1

Hooker Furniture

- Receivables Turnover: 2023 = 8.6, 2022 = 7.6, 2021 = 6.3

Conclusion

The significantly higher receivables turnover of Lovesac showcases its exceptional efficiency in managing credit sales and collecting payments from customers. This efficient collection process is essential for maintaining healthy cash flows and optimizing working capital. Conversely, Hooker's considerably lower receivables turnover may imply a need to improve credit policies or payment collection processes to speed up cash conversion and manage outstanding receivables more effectively. Lovesac's receivable turnover ratio is significantly higher than the industry average for 2021 (8.2), 2022 (8.6), and the latest number posted for 2023 (7.7). (FY 2023 final industry average not yet posted)

3. Inventory Turnover

Lovesac

- Inventory Turnover: 2023 = 2.67, 2022 = 2.83, 2021 = 3.36

Ethan Allen

- Inventory Turnover: 2023 = 1.9, 2022 = 2.1, 2021 = 2.2

Hooker Furniture

- Inventory Turnover: 2023 = 5.4, 2022 = 6.8, 2021 = 5.2

Conclusion

The higher inventory turnover of Hooker suggests a more rapid sales cycle and more frequent replenishment of stock compared to Lovesac and Ethan Allen. This efficiency can indicate effective inventory management, timely restocking, or a higher demand for Hooker's products, leading to faster movement of goods. Conversely, while Lovesac and Ethan Allen have lower turnover rates, they may have different strategies, target markets, or product life cycles influencing their inventory management and turnover rates. Lovesac's inventory turnover was below home furnishing industry average for fiscal year 2021 (3.7), 2022 (3.7) and the latest industry average posted in 2023 (3.7). (FY 2023 final industry average not yet posted)**.**

Liquidity Ratios

1. Current Ratio

Lovesac

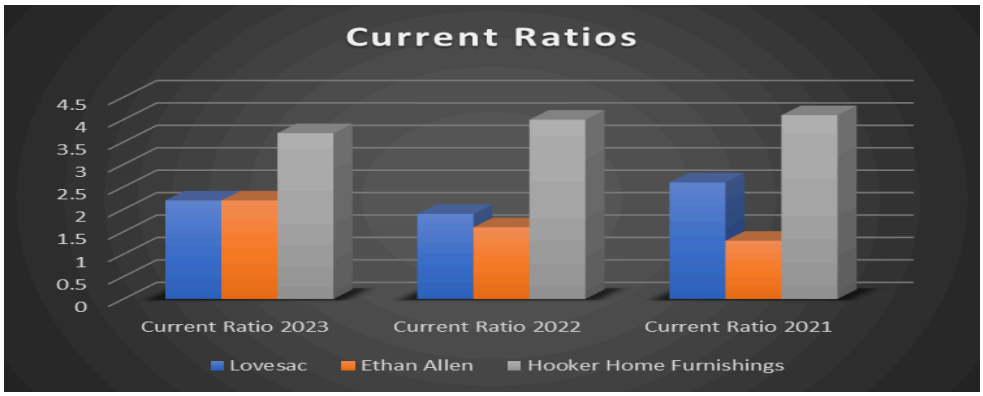
- Current Ratio: 2023 = 2.2, 2022 = 1.9, 2021 = 2.6

Ethan Allen

- Current Ratio: 2023 = 2.2, 2022 = 1.6, 2021 = 1.3

Hooker Furniture

- Current Ratio: 2023 = 3.7, 2022 = 4, 2021 = 4.1



Conclusion

Lovesac's current ratio has remained relatively stable, decreasing from 2.6 in 2021 to 1.9 in 2022, and then increasing in 2023 to 2.2. Relative to its major competitors, Lovesac falls in the middle regarding the current ratio. Hooker Home Furnishings' current ratio exceeded Lovesac in 2021, 2022, and 2023 at 4.1, 4 and 3.7 respectively. Ethan Allen's current ratio was below Lovesac's in 2021 and 2022 at 1.3 and 1.6 respectively, but increased slightly and shared the same current ratio as Lovesac in 2023 at 2.2.

Overall, Lovesac's current ratio was satisfactory for fiscal years 2021 and 2022 as its current ratio exceeded the home furnishings industry average in both 2021 and 2022 which was 1.5 and 1.6 respectively, and its 2023 current ratio is above the latest industry average posted this year of 1.7 (FY 2023 final industry average not yet posted). This suggests that Lovesac is well-positioned to meet its short-term debt obligations. However, lovesac's major competitor Hooker Home Furnishings, whose current ratio was significantly higher than Lovesac for fiscal years 2021, 2022, and 2023, is much more well-positioned to meet its short-term debt obligations.

2. Quick Ratio

Lovesac

- Quick Ratio: 2023 = 0.6, 2022 = 0.8, 2021 = 1.5

Ethan Allen

- Quick Ratio: 2023 = 0.5, 2022 = 0.6, 2021 = 1.1

Hooker Furniture

- Quick Ratio: 2023 = 1.7, 2022 = 2.6, 2021 = 2.8

Conclusion

Lovesac's quick ratio decreased from 1.5 in 2021 to .8 in 2022 and decreased to .6 in 2023. Relative to its two major competitors' quick ratio, Lovesac falls in the middle. Hooker Home Furnishings' quick ratio exceeded Lovesac in 2021, 2022, and 2023 at 2.8, 2.6, and 1.7 respectively. Ethan Allen's quick ratio was below Lovesac's in 2021, 2022, and 2023 at 1.1, .6, and .5 respectively.

Lovesac was above the home furnishing industry quick ratio average of 1.4 in 2021, however, it was below the industry average of 1.4 in 2022 and is currently under the latest industry average posted at the end of Q2 in 2023 of 1.4 (FY 2023 final industry average not yet posted). Lovesac also performed poorly relative to its competitor, Hooker Home Furnishings, whose quick ratio was significantly higher for fiscal years 2021, 2022, and 2023, but performed slightly better than its competitor Ethan Allen for fiscal years 20211, 2022, and 2023. The low quick ratio may signify a liquidity problem for Lovesac as they do not have enough liquefiable assets to satisfy their short-term debt obligations.

3. Operating Cash Flow to Current Liabilities Ratio

Lovesac

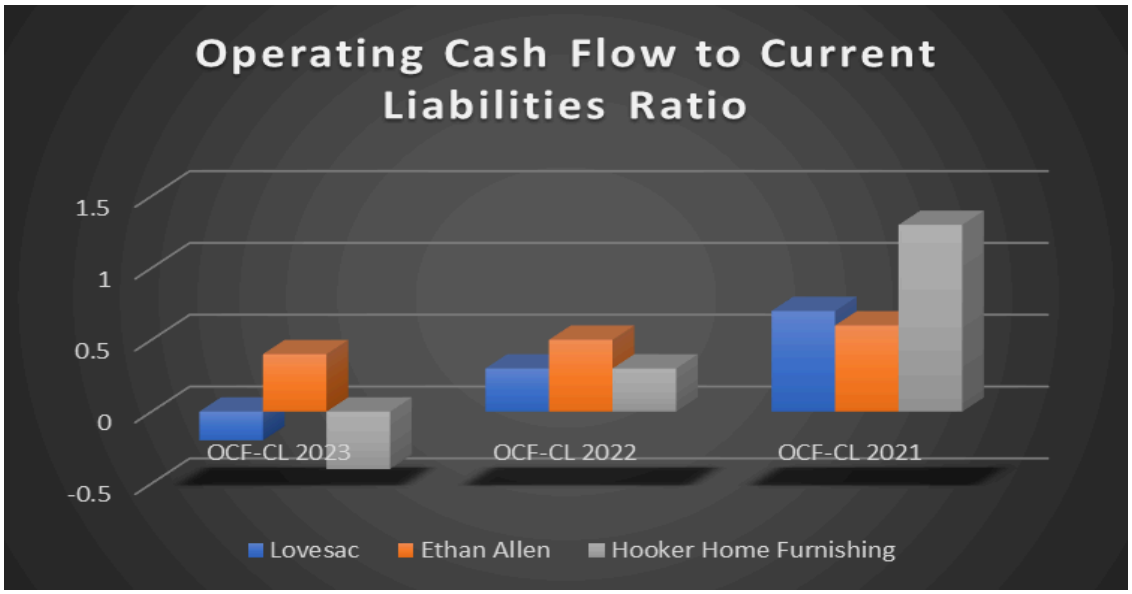
- Operating C.F to Current Liabilities Ratio: 2023 = (0.2), 2022 = 0.3, 2021 = 0.7

Ethan Allen

- Operating C.F to Current Liabilities Ratio: 2023 = 0.4, 2022 = 0.5, 2021 = 0.6

Hooker Furniture

- Operating C.F to Current Liabilities Ratio: 2023 = (0.4), 2022 = 0.3, 2021 = 1.3



Conclusion

Lovesac's Operating Cash Flow to Current Liabilities (OCF-CL) ratio decreased from .7 in 2021 to .3 in 2022 and further decreased to -.2 in 2023. Relative to its major competitors' OCF-CL ratio, Lovesac performs poorly. Hooker Home Furnishings OCF-CL ratio exceeded Lovesac in 2021 at 1.3, was equal to Lovesac in 2022 at .3, and fell below Lovesac in 2023 at -.4. Ethan Allen's OCF-CL ratio was below Lovesac in 2021 at .6, however, in both 2022 and 2023, Ethan Allen's OCF-CL was higher than lovesac at .5 and .4 respectively.

Lovesac's OCF-CL ratio was above the industry average in both 2021 and 2022, at 0.0 and .1 respectively, however, it is currently under the latest industry average posted at the end of Q2 in 2023 of 1.

Solvency Ratios

1. Debt Ratios

Lovesac

- Debt Ratios: 2023 = 53.8%, 2022 = 58%, 2021 = 36.9%

Ethan Allen

- Debt Ratios: 2023= 36.8%, 2022= 43.4%, 2021= 48.6%

Hooker Home Furnishings

- Debt Ratios: 2023= 38.2%, 2022= 30.3%, 2021= 26.9%

Conclusion:

When comparing Lovesac's performance to competitors the following must be noted;
The entity's Debt ratio is nearing 0.6x which can prove difficult to borrow money in the future to expand the business given Total Liabilities outweigh Total Assets. Opposite, Hooker Home Furnishings, and Ethan Allen peak close to 0.4x in regards to their Debt ratio. Providing Lovesac's competition an advantage due to a cushion to increase leveraged assets and entice shareholders as this shows a healthy scale of liability to assets respectively.

2. Debt-to-Equity Ratios

Lovesac

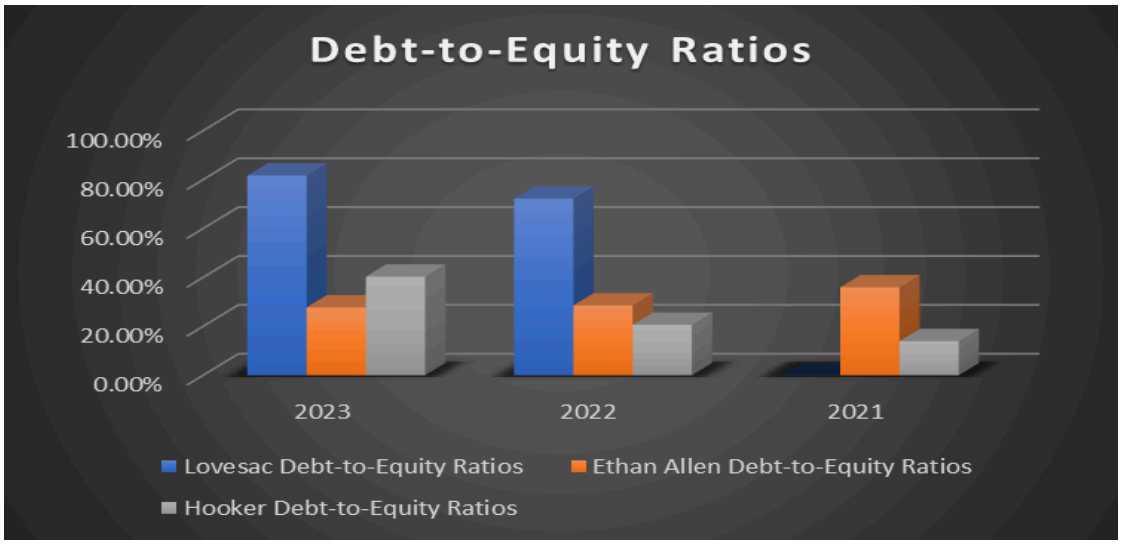
- Debt-to-Equity Ratios: 2023= 81.7%, 2022= 72.3%, 2021= 0% ***

Ethan Allen

- Debt-to-Equity Ratios: 2023= 27.8%, 2022= 28.6%, 2021= 36%

Hooker Home Furnishings

- Debt-to-Equity Ratios: 2023= 40.4%, 2022= 20.7%, 2021= 14%



Conclusion:

Lovesac's D/E (Debt - Equity) ratio stands above 80% placing the entity's liabilities to Shareholder's equity near 1:1. This is due to long-term leases having an uptick of $39 mm from 2022 to January 29, 2023. Contrary to its competition, where Ethan Allen leads with a superb 28% and Hooker Home Furnishings trailing second with 40% both detailing more assets to debts which can yield favorable borrowings from banks. Lovesacs debt-to-equity ratio was well below home furnishings industry average in 2021 (53.4%), however it was significantly higher than the industry average in 2022 (55.4%), and currently higher than the latest industry average posted in 2023 (53.2%).

3. Times Interest Earned Ratios

Lovesac

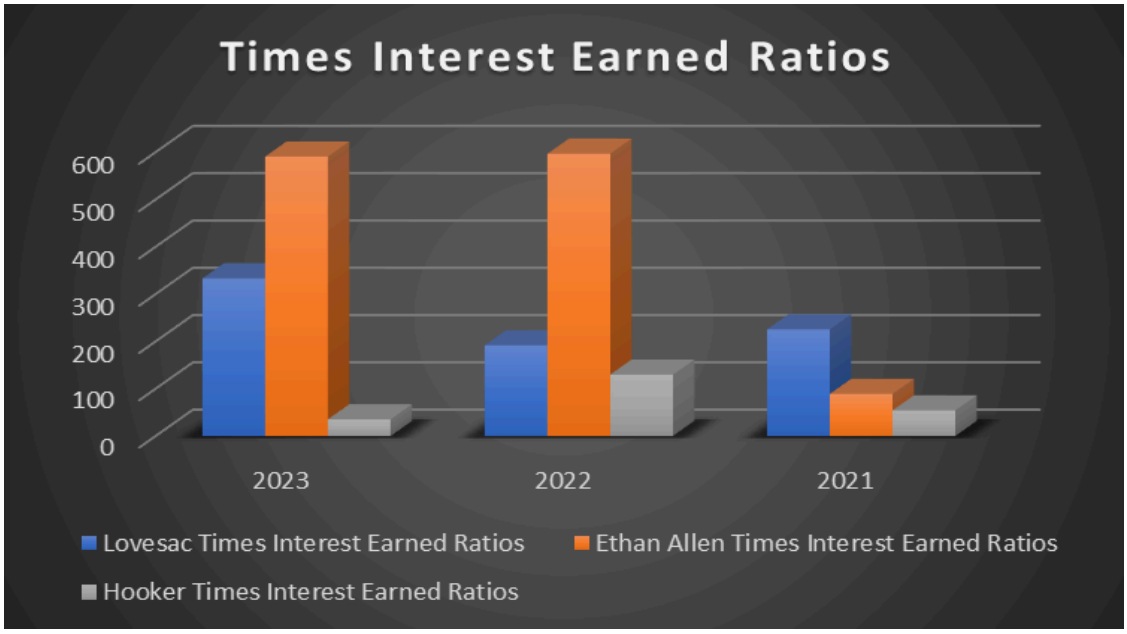
- Times Interest Earned Ratios: 2023 = 333.48, 2022= 192, 2023= 225.7

Ethan Allen

- Times Interest Earned Ratios: 2023= 591, 2022= 597, 2021= 89.2

Hooker Home Furnishings

- Times Interest Earned Ratios: 2023= 35.5, 2022= 130, 2021= 54.3



Conclusion:

The company has moved up in ranking when comparing TIE (Times Interest Earned), Lovesac, falls in a competitive second with 333x right behind Ethan Allen's impressive 591x. Hooker

Home Furnishings has much improvement required in this area with a valley placed output of 35.5x, the next emphasis for Lovesac's strategy will be highly placed on lowering their expenses if the goal to outpace Ethan Allen persists.

4. Operating Cash Flow Coverage Ratios

Lovesac

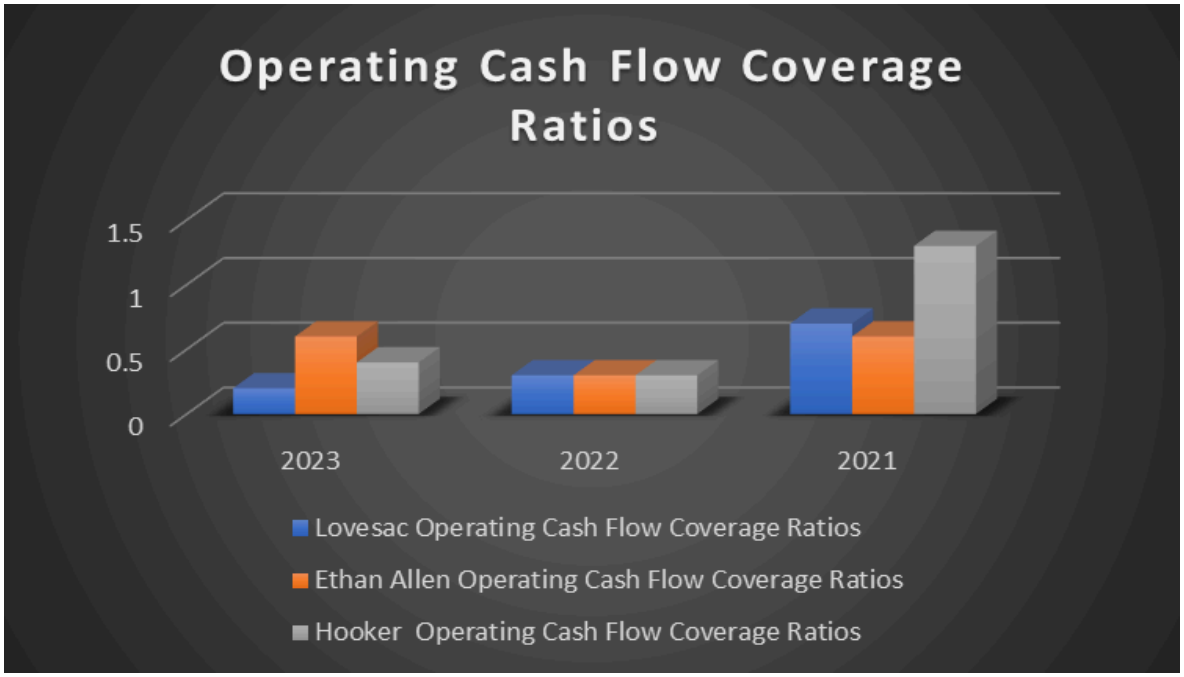
- Operating Cash Flow Coverage Ratios: 2023= 0.13, 2022= 0.34, 2021= 0.97

Ethan Allen

- Operating Cash Flow Coverage Ratios: 2023= 0.6, 2022= 0.3, 2021= 0.6

Hooker Home Furnishings

- Operating Cash Flow Coverage Ratios: 2023= 0.4, 2022= 0.3, 2021= 1.3



Conclusion:

Consequently, this leads to the final multiple OCFC (Operating Cash Flow Coverage) where Lovesac is healthy with 0.13x, however when comparing Hooker's 0.4x and Ethan's 0.6x which are progressing to 1.0x which is most desired by investors due to this detailing the ability of the entity to cover short-term liabilities and have a s healthy cash flow statement, Lovesac falls short of being in line with its peers.

Part 4: Recent Developments & SWOT Analysis

Recent Developments:

New Product:

In August of 2022, Lovesac announced the release of new product Angled Side which is an addition to the company's sactional section. (The Lovesac Company, 2023) The guiding thought leading to the development of this new product was that it would allow Lovesac's consumers to both adapt their sactional set in new unprecedented ways and give them a new look without having to purchase a new couch. (The Lovesac Company, 2023)

Change in Executive Leadership:

Effective 6/30/2023 both Jack Krause, Chief Strategy Officer with over 7 years at Lovesac, and Donna Dellomo, Executive Vice President and Chief Financial Officer will be retiring from their positions. (The Lovesac Company, 2023) However, both will remain affiliated with the company with Jack Krause retaining his position on the board of directors and Jack Donna Dellomo will transition to Senior Strategic Advisory. (The Lovesac Company, 2023). While there is no replacement announced for Chief Strategy Officer, Jack Krause's previous executive post, Donna Dellomo's position of Executive Vice President and Chief Financial Officer has been replaced by Keith Siegner, effective since the day of Dellomo's resignation on 6/30. (The Lovesac Company, 2023).

Advances in the Company's Omni Channel:

Lovesac opened an additional 16 showrooms, another Best-Buy in store shop, and increased its e-commerce channel sales by 28.7 percent in Q1 of FY 2024. (The Lovesac Company, 2023). As per the Q1 investment report, Lovesaac believes that furthering their "unique" omni channel experience has been the driving factor of the company's strong customer satisfaction scores and expects those to continue. (The Lovesac Company, 2023).

Swot Analysis

Strengths	**Opportunities**
-Strong Sales Channel -Strong Brand Awareness -Strong Innovation	-Consumer Preferences
Weaknesses	**Threats**
-Supply Chain -Dependent on Economic Circumstances	- Reliance on third-parties - Competition

Strengths:

- **Strong Sales Channel:**

Lovesac takes a unique omnichannel approach to sales, whereby they sell across multiple sales channels such as e-commerce and traditional brick and mortar retail stores and consumers will have the same consistent purchase experience regardless of which channel they buy from because of integrated promotion and communication channels. (Awati et. al, n.d.;The Lovesac Company 2023). Because of the consistent buying experience, Lovesac has seen an increase in customer satisfaction. (The Lovesac Company 2023).

- **Strong Brand Awareness:**

In recent years, Lovesac has enhanced its marketing and advertising campaigns in both the digital and social media space. (Chiffey, 2021; Schott, 2021). As a result of the enhanced marketing campaigns, especially in the social media realm where the company has now

surpassed over 477,000 followers, Lovesac has increased its brand awareness especially among the older millennial generation who are their primary target market., in turn leading to an increase in sales. (Schott, 2021).

- **Strong Innovation**

Lovesac has placed particular importance on product innovation. As a result, they have consistently released new and appealing products to consumers, creating the public perception that they are a high tech, and innovative brand. Its newest product releases include the angled side piece, and its StealthTech Sound + Charge System which are both additions to its Sactional product line. (Hodnett, 2023; The Lovesac Company, 2021.

Weaknesses:

- **Supply Chain:**

Lovesac outsources nearly all of their production to other countries. However, while production costs may be cheaper in the countries where they are outsourcing to, it leaves them vulnerable to potential supply chain disruptions like the US-China trade war in 2019, which severely impacted the company's production. (Magill, 2022).

- **Dependent on Economic Circumstances:**

Lovesac's sales performance is largely interdependent on the economic circumstances, and the company may see a decline in sales due to a shock in the market or a recession causing consumers to have less disposable income. In the present for example, Furniture companies are seeing a decline in sales as of the end of quarter 3 in 2023 facilitated largely by inflation, and a shift in consumer needs in a post-pandemic world which could negatively impact Lovesac's business in the near future. (Delouya, 2023).

Opportunities:

- **Consumer Preferences:**

The Lovesac company understands that consumer preferences are ever changing. Their product is made with that specifically in mind. As trends come and go, the Lovesac company is more than able to adapt to needs and preferences. The company is expected to continue its growth and therefore also its innovation. Lovesac must pay close attention to what the younger millennials and generation Z as these generations are the ones dictating the market now. According to the article, "Exclusive Research: Gen Z and Millennials are going to drive furniture sales" by Julie Palm, "Gen Zers may be buying pieces they can easily move and that will quickly personalize their spaces." (Palm, 2022). The Lovesac can easily take advantage of this phenomenon and become the consumers preferred choice. The company designs and provides just that, pieces that are functional and personalizable.

Threats:

- **Dependence & Competition :**

As mentioned earlier, the Lovesac company is highly reliant on third party suppliers as well as manufacturers. This is an ongoing threat for the company because these third party players can be unpredictable. When the supply chain is disrupted, and so is Lovesac, the loyalty of consumers can easily shift. There is always a possibility that the manufacturing process may be delayed or stopped for external reasons altogether. This can lead to the consumers preferring a different brand over Lovesac due to the wait period for their pieces. As technology advances in the furniture industry, the competitors will have the opportunity to create models faster or even of higher quality. This leaves The Lovesac company at a wide disadvantage and our consumer with other select choices.

Part 5: Final Recommendation

On 10/31/2023 at 10:21, the market price of lovesac stock at closing was $16.46. At the current market price, we do not recommend purchasing additional shares, however, we do recommend holding if you currently own shares.

The recommendation to hold the stock was made considering the future potential economic opportunities for Lovesac given generation Z's and the younger millennials' furniture preferences, growing brand awareness, strong marketing and constant innovation. We also recommend that shareholders who wish to keep their position should monitor quarterly financial reports closely.

However, while we recommend that you hold your position we do not advise to increase your position nor buy any if you aren't a current shareholder. This decision was made considering the potential threats in Lovesac's supply chain being that their production is largely outsourced. Moreover, we were also concerned about Lovesac's large investments in 2023, and are still uncertain if they will be able to sustain their position. If the investments don't generate enough returns, it is a possibility that could affect their liquidity. As we can see from the Debt-to-Equity ratio chart, Lovesac is acquiring more debt over the years and not really generating equity over the investments, which makes their investments more risky.

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Part 7: Appendix

Appendix 1: The Lovesac Company's sales by product

The Company's sales by product which are considered one segment are as follows:

	2023	2022	2021
Sactionals	$ 584,815	$ 436,588	$ 271,018
Sacs	55,145	52,478	44,975
Other	11,585	9,173	4,745
Total net sales	$ 651,545	$ 498,239	$ 320,738

Figure 1: Executives Headshots

Figure 2: Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of The Lovesac Company

Opinion on the Financial Statements

We have audited the accompanying balance sheet of The Lovesac Company (the "Company") as of January 29, 2023, the related statements of operations, changes in stockholders' equity, and cash flows for the year ended January 29, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 29, 2023, and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 29, 2023, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Figure 3: Critical Audit Matter

Barter Arrangements — *Refer to Note 1 to the financial statements*

Critical Audit Matter Description

The Company has a bartering arrangement with a third-party vendor, in which the Company sells returned open-box inventory in exchange for media credits. Barter sale transactions with commercial substance are recorded at a transaction price based on the estimated fair value of the non-cash consideration of the media credits to be received and the revenue is recognized when control of inventory is transferred, which is when the inventory is picked up from the Company's warehouse. Fair value is estimated using various considerations including the cost of similar media advertising if transacted directly, the expected sales price of product given up in exchange for the media credits, and the expected usage of media credits prior to expiration based on a marketing spend forecast. For the year ended January 29, 2023, the Company recognized $21.3 million of barter sales in exchange for media credits. The Company recognizes an asset for media credits which is subsequently evaluated for impairment at each reporting period for any changes in circumstances. As of January 29, 2023, the Company had $25.2 million of unused media credits and did not recognize any impairment.

We identified the barter arrangement as a critical audit matter because of the significant estimate and assumptions management makes to determine the transaction price based on the estimated fair value of the non-cash consideration received in exchange for the media credits. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's estimate of the fair value of the sale transaction price.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to barter arrangement included the following, among others:

- We tested the effectiveness of controls over the determination of the transaction price
- We read the underlying barter transaction agreement
- For a sample of barter sale transactions, we tested that the sale occurred and the estimated fair value of the sale transaction price, as follows:
  - Obtained shipping documents that evidenced the transfer of control of the related inventory
  - Compared management's independent estimate of advertising costs to the actual advertising costs incurred under the barter arrangement from the third-party vendor
  - Compared the transaction price of the inventory sold through the bartering agreement to the transaction price of like inventory sold to other third-party customers
  - Tested the underlying assumptions to management's analysis to determine their ability to utilize media credits by 1) making inquiries of management related to their projected advertising and media spend, 2) performing a lookback analysis of total marketing spend and specific marketing spend with the third-party vendor, and 3) comparing the forecasts to the amounts included in the overall business forecast as communicated to the Board of Directors

/s/ Deloitte & Touche LLP

Stamford, Connecticut
March 29, 2023

We have served as the Company's auditor since fiscal 2023.

Figure 4: Company stock performance over three years

Table 1: Summary compensation table

Summary Compensation Table

The following Summary Compensation Table summarizes the total compensation paid to or earned by each of our named executive officers for services provided to the Company for fiscal 2023.

Name and Principal Position	Year	Salary ($)[1]	Bonus ($)	Stock Awards ($)[2]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation ($)[4]	Total ($)
Shawn Nelson	2023	440,229	—	2,472,858	—	267,060	24,536	3,204,682
Chief Executive	2022	405,450	—	732,744	—	489,060	12,842	1,640,096
Officer	2021	341,847	—	1,266,865	582,677	408,000	10,914	2,610,303
Mary Fox	2023	440,404	—	2,472,858	—	667,060	12,227	3,592,548
President and Chief	2022	72,692	500,000	1,640,839	—	489,060	768	2,703,359
Operating Officer		—	—	—	—	—	—	—
Jack Krause	2023	440,229	—	1,537,620	—	267,060	24,536	2,269,444
Chief Strategy	2022	405,450	—	732,744	—	489,060	12,462	1,639,716
Officer	2021	341,847	—	1,266,865	194,222	408,000	10,914	2,221,848
Donna Dellomo	2023	412,304	—	727,391	—	208,350	23,891	1,371,936
EVP and Chief	2022	380,109	—	279,188	—	381,544	10,735	1,051,576
Financial Officer	2021	320,478	—	762,092	97,112	382,500	11,444	1,573,626

Table 2: The Lovesac Company's Emissions & Climate - ESG FY 2022

EMISSIONS & CLIMATE						
Total CO_2e Scope 1	tCO_2e	–	142.51	N/A[12]	0	2040
Total CO_2e Scope 2	tCO_2e	–	1319.54		0	2040
Total CO_2e per $million revenue Scope 1	tCO_2e/$M	–	0.29		0	2040
Total CO_2e per $million revenue Scope 2	tCO_2e/$M	–	2.65		0	2040

Figure 5: Scope 1 & 2 Milestones - The Lovesac Company ESG FY 2022

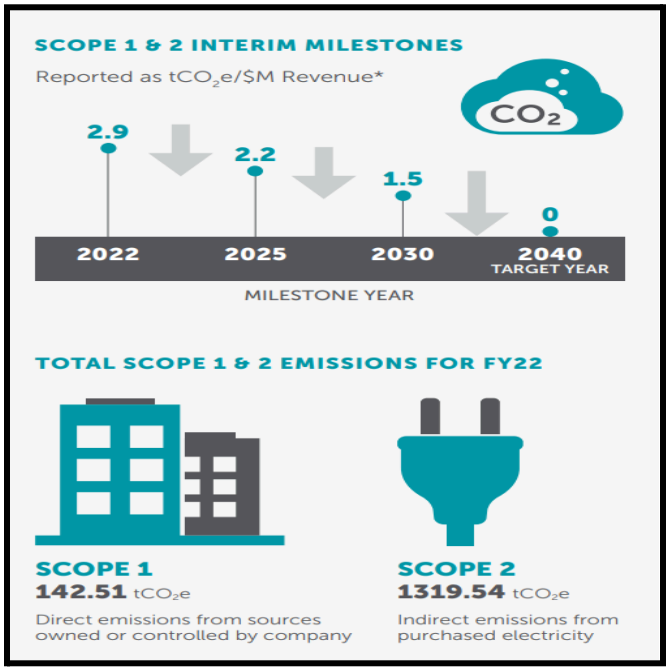

Figure 6: The Lovesac Company Scope 3 Management Plan - ESG FY 2022

SCOPE 3 MANAGEMENT PLAN

High Effort | Medium Effort | Low Effort

	Purchased Goods and Services	Transportation and Distribution	Waste Generated in Operations (owned and operated)	Employee Travel and Commuting	Use of Solid Products	End-of-Life Treatment of Product
GAME CHANGING (High GHG Reduction)	Work with Suppliers to Reduce Carbon Footprint	Work with Transport Providers to Reduce Carbon Footprint			Conduct Product LCAs	
	Reduce Impact of Raw Materials					
INCREMENTAL CHANGE (Low GHG Reduction)	Collect Energy and Raw Data Material from Suppliers	Collect Ocean and Long-Haul Transport Data	Reduce Showroom and Office Waste	Develop Low-Emissions Travel Strategy	Reduce Use Phase Impacts of Products	Develop Programs to Reduce End-of-Life Impact
		Collect Final-Mile Transport Data	Collect Waste Generation Data from Touchpoints and Suppliers	Collect Employee Travel and Commuting Data		
		Collect Warehousing Data				

Figure 7: The Lovesac Company: Factors to be audited in Environmental Impact Audits - ESG FY 2022

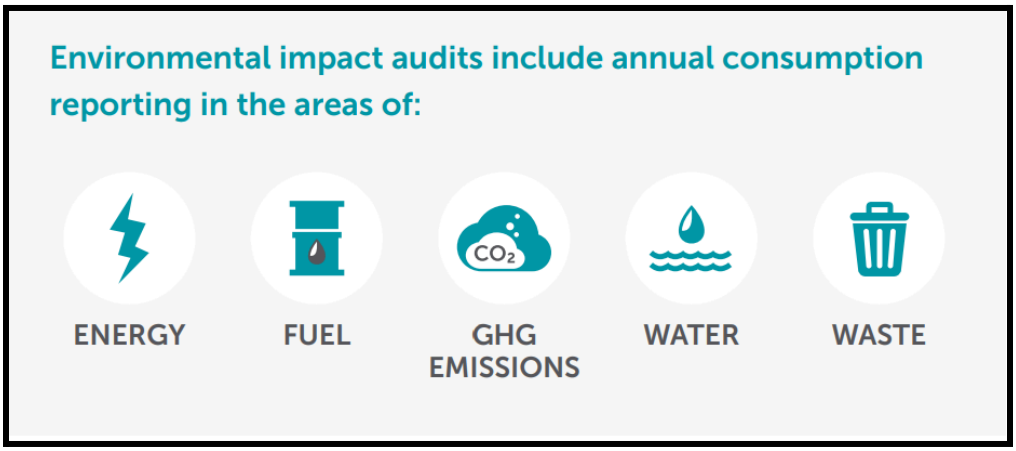

Table 3: The Lovesac Company - Compensation breakdown - Data from S&P Database

Name	Year	Salary	Bonus	Stock Awards	Total Compensation
Fox, Mary	2023	440,404	N/A	2,472,858	1,336,852
President & COO	2022	72,692	500,000	1,640,839	1,708,722
	2021	N/A	N/A	N/A	86,667
	2020	N/A	N/A	N/A	N/A
Nelson, Shawn David	2023	440,229	N/A	2,472,858	1,555,963
CEO/Founder /Director	2022	405,450	N/A	732,744	2,539,284
	2021	341,847	N/A	1,266,865	760,761
	2020	382,692	N/A	1,985,408	397,123
Krause, Jack A.	2023	440,229	N/A	1,537,620	1,555,963
Director	2022	405,450	N/A	732,744	2,538,904

Table 4: Horizontal Analysis

HORIZONTAL ANALYSIS					
FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021 (amounts in thousands)					
	2023	%	2022	%	2021
Net Sales	651545	31%	498239	55%	320738
Cost of Merchandise Sold	305719	36%	224894	54%	145966
Gross Profit	345826	27%	273345	56%	174772
Operating Expenses					
Selling, general and administration expenses	216103	33%	161967	45%	111354
Advertising and Marketing	79864	23%	65078	55%	41925
Depreciation and Amortization	10842	38%	7859	19%	6613
Total Operating Expenses	306809	31%	234904	47%	159892
Operating Income	39017	1%	38441	158%	14880
Interest Expense, net	-117	-35%	-179	167%	-67
Net Income before taxes	38900	2%	38262	158%	14813
(Provision for) benefit from income taxes	-10658	-240%	7638	-8981%	-86
Net Income	28242	-38%	45900	212%	14727

Table 5: Vertical Analysis

VERTICAL ANALYSIS						
FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021 (amounts in thousands)						
	2023	% of Revenue	2022	% of Revenue	2021	% of Revenue
Net Sales	651545	100%	498239	100%	320738	100%
Cost of Merchandise Sold	305719	47%	224894	45%	145966	46%
Gross Profit	345826	53%	273345	55%	174772	54%
Operating Expenses						
Selling, general and administration expenses	216103	33%	161967	33%	111354	35%
Advertising and Marketing	79864	12%	65078	13%	41925	13%
Depreciation and Amortization	10842	2%	7859	2%	6613	2%
Total Operating Expenses	306809	47%	234904	47%	159892	50%
Operating Income	39017	6%	38441	8%	14880	5%
Interest Expense, net	-117	0%	-179	0%	-67	0%
Net Income before taxes	38900	2%	38262	8%	14813	5%
(Provision for) benefit from income taxes	-10658	-2%	7638	2%	-86	0%
Net Income	28242	4%	45900	9%	14727	5%

Table 6: Statements of Cash Flows

THE LOVESAC COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021

(amounts in thousands)	2023	2022	2021
Cash Flows from Operating Activities			
Net income	$ 28,242	$ 45,900	$ 14,727
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization of property and equipment	10,454	7,154	6,100
Amortization of intangible assets	388	705	513
Amortization of deferred financing fees	164	91	88
Net loss on disposal of property and equipment	45	464	5
Impairment of long-lived assets	—	554	245
Equity-based compensation	10,450	5,859	4,681
Deferred rent	—	—	3,641
Non-cash lease expense	19,265	14,953	—
Deferred income taxes	416	(9,836)	—
Gain on recovery of insurance proceeds - lost profit margin	—	(632)	—
Changes in operating assets and liabilities:			
Trade accounts receivable	(921)	(4,034)	2,675
Merchandise inventories	(11,470)	(56,819)	(14,017)
Prepaid expenses and other current assets	890	(2,459)	(2,060)
Other assets	(21,459)	—	—
Accounts payable and accrued expenses	(33,002)	39,195	19,584
Operating lease liabilities	(18,281)	(14,400)	—
Customer deposits	(6,556)	7,323	4,339
Net Cash (Used in) Provided by Operating Activities	(21,375)	34,018	40,521
Cash Flows from Investing Activities			
Purchase of property and equipment	(25,242)	(15,887)	(8,374)
Payments for patents and trademarks	(307)	(601)	(678)
Net Cash Used in Investing Activities	(25,549)	(16,488)	(9,052)
Cash Flows from Financing Activities			
Taxes paid for net share settlement of equity awards	(1,658)	(3,583)	(1,717)
Proceeds from the exercise of warrants	—	104	100
Payment of deferred financing costs	(277)	—	(50)
Net Cash Used in Financing Activities	(1,935)	(3,479)	(1,667)
Net Change in Cash and Cash Equivalents	(48,859)	14,051	29,802
Cash and Cash Equivalents - Beginning	92,392	78,341	48,539
Cash and Cash Equivalents - End	$ 43,533	$ 92,392	$ 78,341
Supplemental Cash Flow Disclosures			
Cash paid for taxes	$ 10,670	$ 1,121	$ 86
Cash paid for interest	$ 192	$ 95	$ 85
Non-cash investing activities:			
Asset acquisitions not yet paid for at end of year	$ 4,103	$ —	$ —

Table 7: Cash Flow Analysis

Fiscal Year Ended	January 29, 2023	January 30, 2022	January 31, 2021
Net Cash from Operating Activities	($21,375,000)	$34,018,000	$40,521,000
-Net Income	$28,200,000	$45,900,000	$14,700,000
-Non-Cash Items	$41,200,000	$19,900,000	$15,300,000
-Changes in Working Capital and Other Activities	($90,825,000)	$31,200,000	$10,500,000
Net Cash from Investing Activities	($25,549,000)	($16,488,000)	($9,052,000)
Net Cash from Financing Activities	($1,935,000)	($3,479,000)	($1,667,000)
Change in Cash and Cash Equivalents	($48,859,000)	$14,051,000	$29,802,000
Cash and Cash Equivalents at the End of the Period	$43,533,000	$92,392,000	$78,341,000

Chart 1: Gross Profit Margin Ratios

Chart 2: Profit Margin Ratios

Chart 3: Return on Assets Ratios

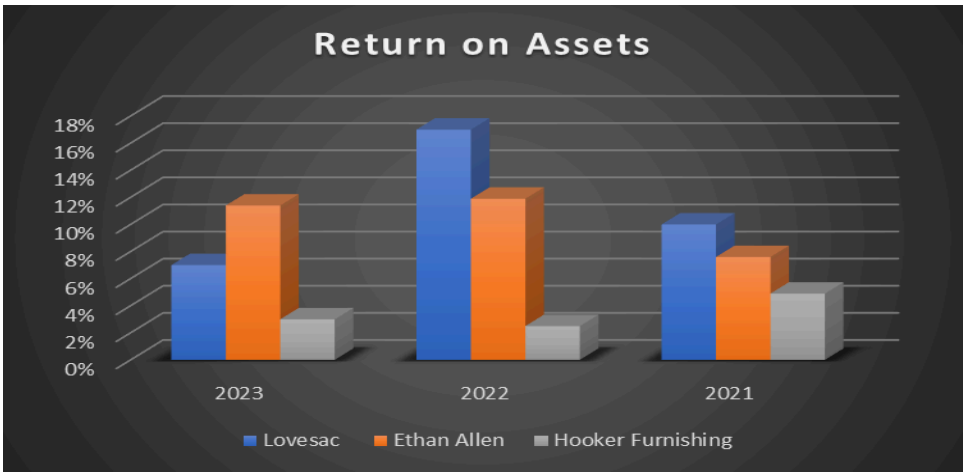

Chart 4: Return on Equity Ratios

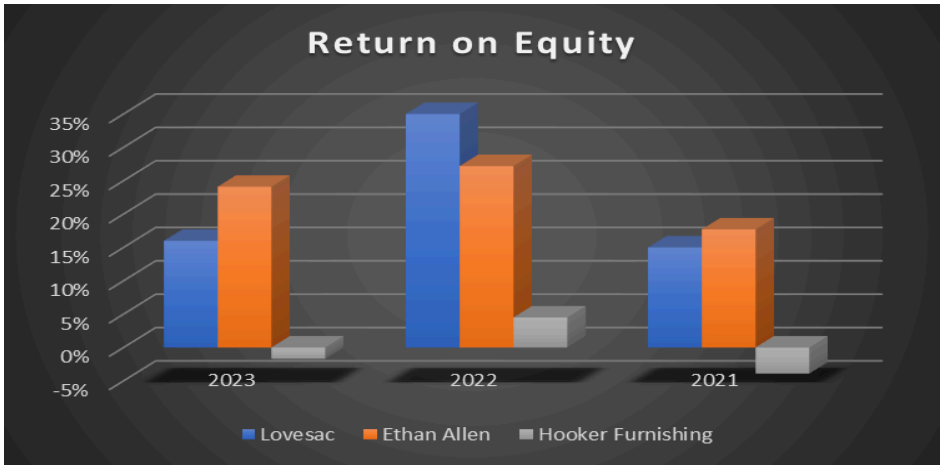

Chart 5: Net Income Per Common Share Ratios

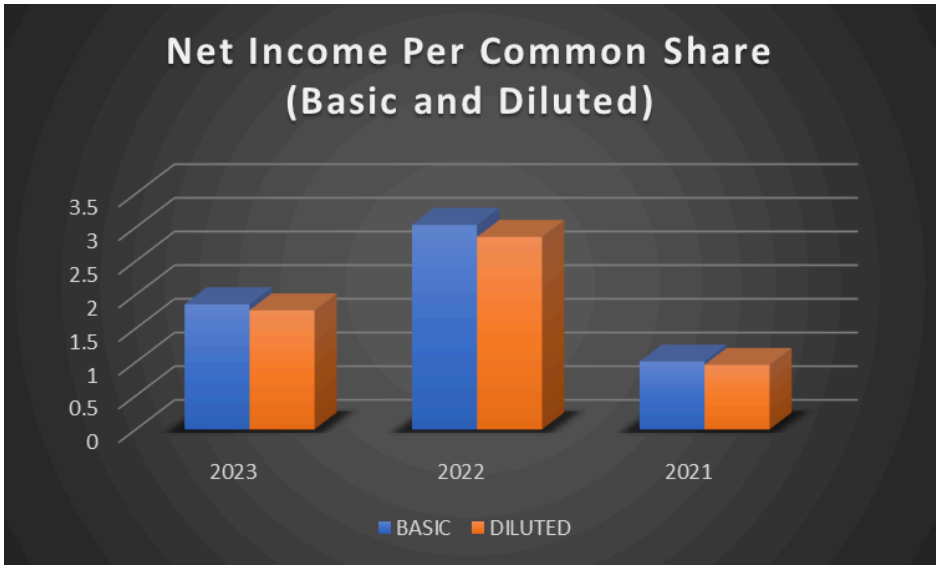

Chart 6: Earnings Per Share Ratios

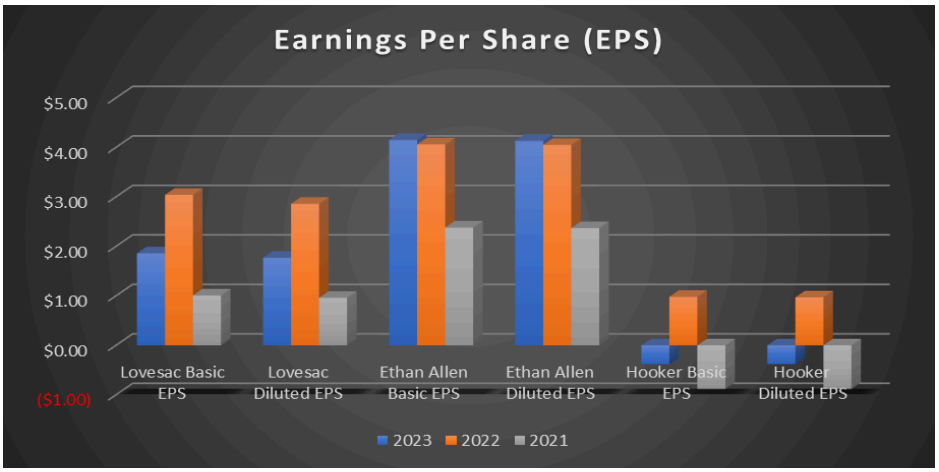

Chart 7: The Price to Earnings Ratios

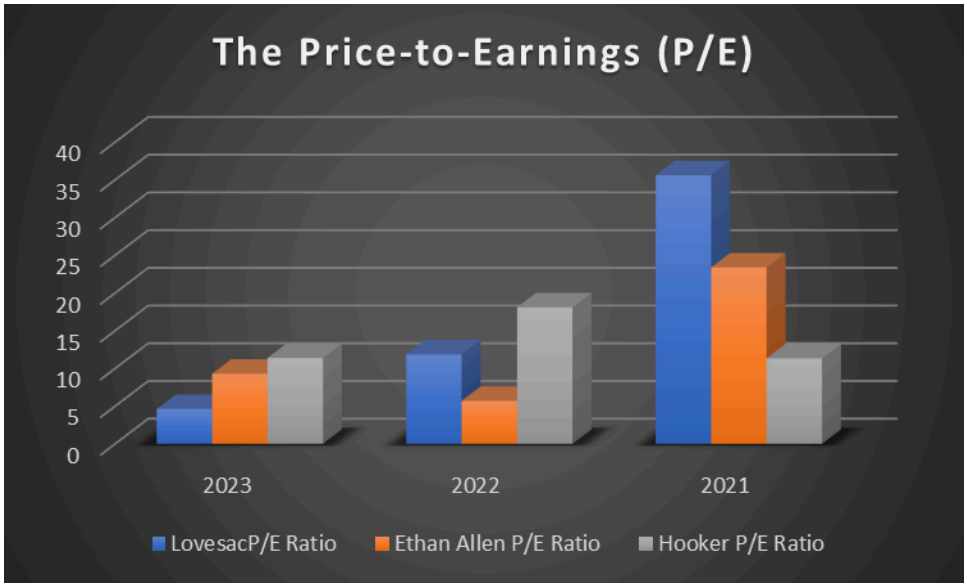

Chart 8: Asset Turnover Ratios

Chart 9: Receivables Turnover Ratios

Chart 10: Inventory Turnover Ratios

Chart 11: Current Ratios

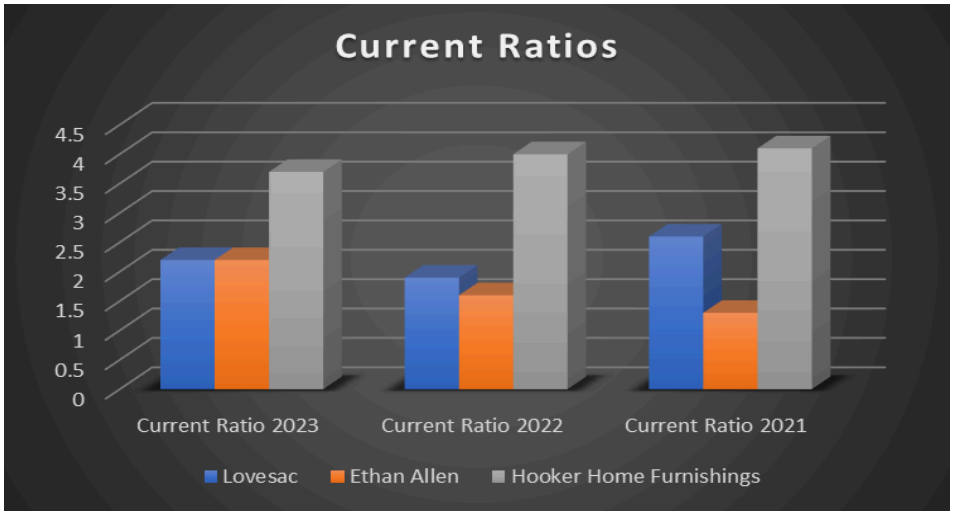

Chart 12: Quick Ratios

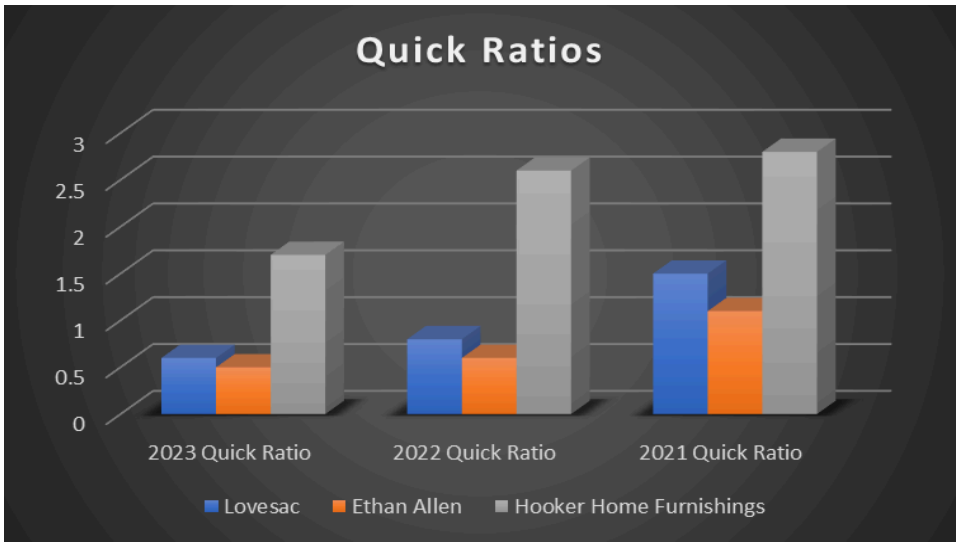

Chart 13: Operating Cash Flow to Current Liabilities Ratios

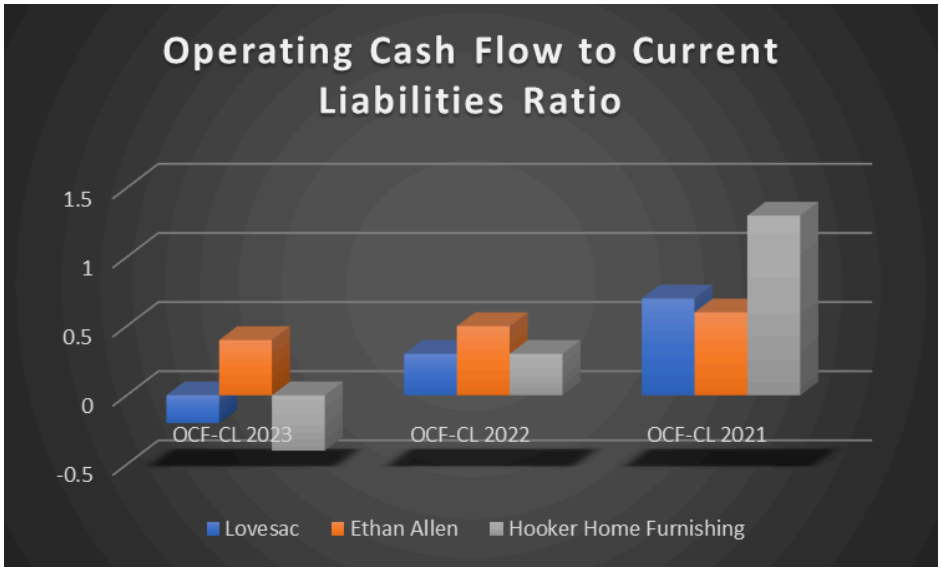

Chart 14: Debt Ratios

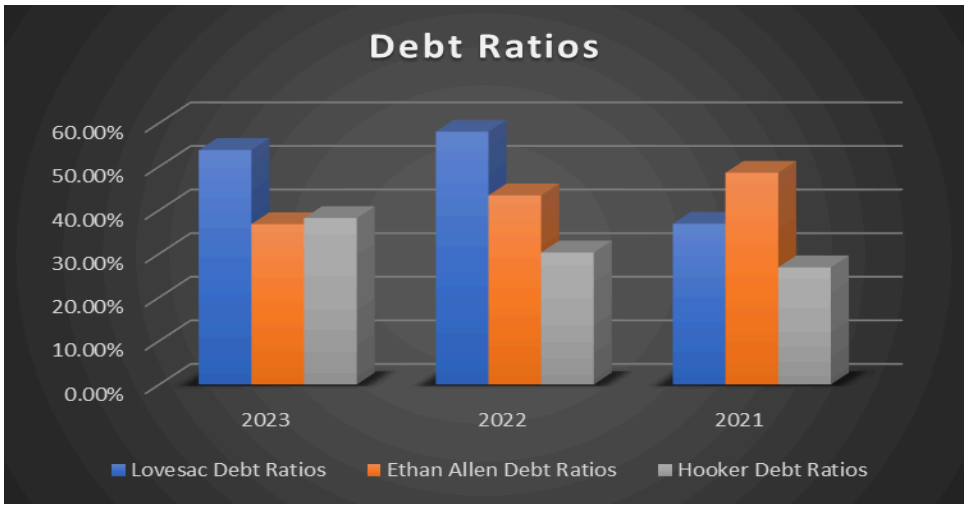

Chart 15: Debt to Equity Ratios

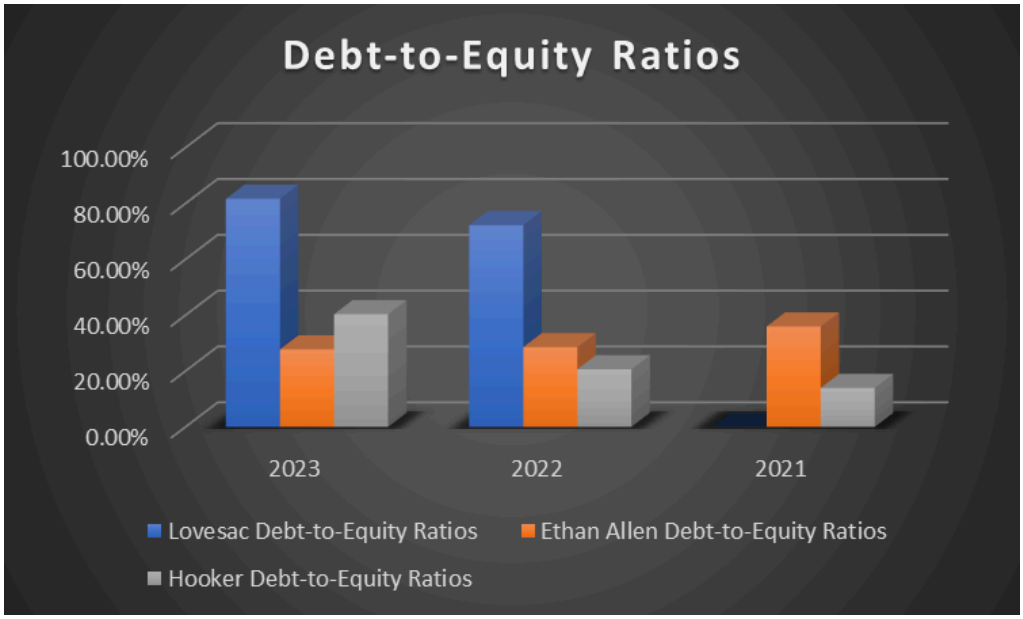

Chart 16: Times Interest Earned Ratios

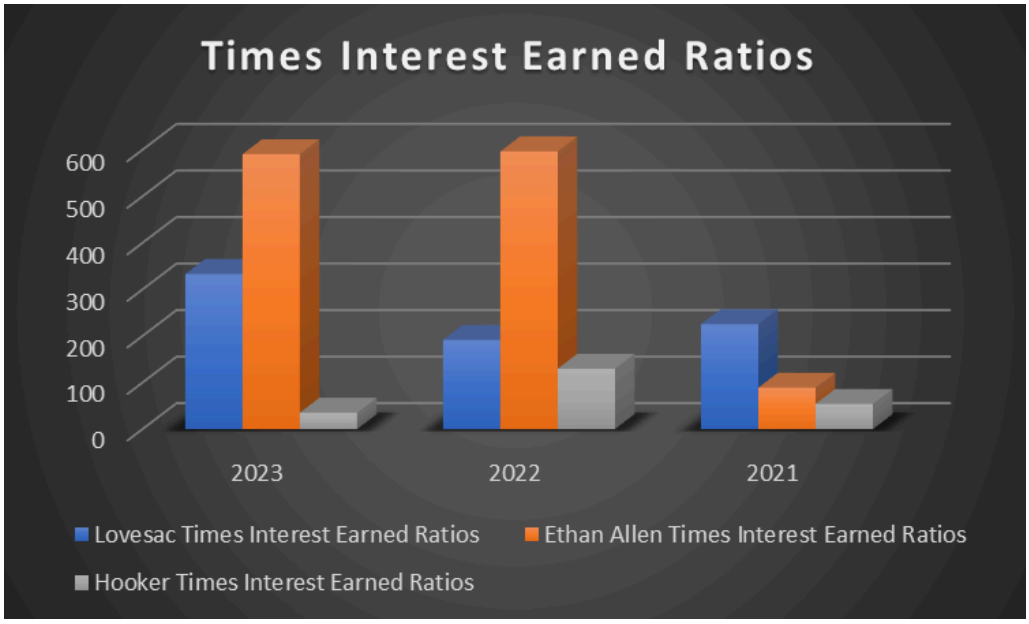

Chart 17: Operating Cash Flow Coverage Ratios

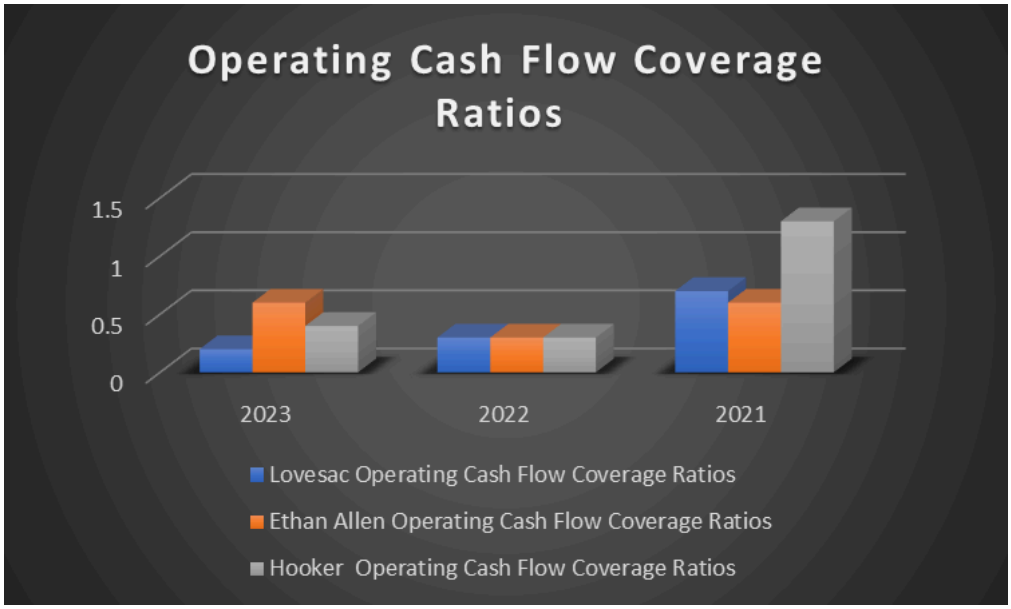

Table 8: SWOT Analysis

Strengths	**Opportunities**
-Strong Sales Channel -Strong Brand Awareness -Strong Innovation	-Consumer Preferences
Weaknesses	**Threats**
-Supply Chain -Dependent on Economic Circumstances	- Reliance on third-parties - Competition