California Senate Bill 261 Climate-Related Financial Risk Report

ETHAN ALLEN®

Prepared by Ethan Allen Global, Inc.

For the 2025 Calendar Year

ETHAN ALLEN

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1. Introduction

This Climate-Related Financial Risk Report has been prepared by Ethan Allen Global, Inc. ("Ethan Allen" or the "Company") in accordance with the requirements of California Senate Bill 261 ("SB 261"), *Greenhouse Gases: Climate-Related Financial Risk*) as amended by SB 219, and the IFRS S2 standard (*Climate-related Disclosures*, June 2023) issued by the International Sustainability Standards Board ("ISSB").

Ethan Allen is a leading interior design company, manufacturer and retailer in the home furnishings marketplace. The Company is a global luxury home fashion brand that is vertically integrated from product design through home delivery, which offers its clients stylish product offerings, artisanal quality, and personalized service. Ethan Allen is known for the quality and craftsmanship of its products as well as for the exceptional personal service from design to delivery, and for its commitment to social responsibility and sustainable operations. The Company's strong network of entrepreneurial leaders and interior designers provide complimentary interior design service to clients and sell a full range of home furnishing products through a retail network of design centers located throughout the United States ("U.S.") and abroad as well as online at ethanallen.com.

Ethan Allen manufactures approximately 75% of its furniture in its North American manufacturing plants and has been recognized for product quality and craftsmanship since being founded in 1932. The Company's vertical integration is a competitive advantage as its North American manufacturing and logistics operations help maximize production efficiencies.

Ethan Allen's business model is to maintain continued focus on (i) providing relevant product offerings, (ii) capitalizing on the professional and personal service offered to clients by its interior design professionals, (iii) leveraging the benefits of vertical integration including a strong manufacturing presence in North America, (iv) regularly investing in new technologies across all aspects of the business, (v) maintaining a strong logistics network, (vi) communicating key messages with strong marketing campaigns, and (vii) utilizing the Company's website, ethanallen.com, as a key marketing tool to drive traffic to its retail design centers.

The Company's corporate headquarters is located Danbury, Connecticut with all Company-operated properties being well maintained, in good condition and adequate to meet requirements for the foreseeable future. Ethan Allen currently owns and operates 11 manufacturing facilities located in the U.S., Mexico, and Honduras, and three national distribution centers in the U.S. There are 143 Company-operated retail design centers located in the U.S. and Canada, including 15 within the state of California, of which two are owned and 13 leased. Ethan Allen also owns four and leases 13 retail home delivery centers located throughout North America, including two leased locations in California, that support the various retail design centers.

Ethan Allen is committed to sustainable business practices that incorporate social, environmental, health and safety programs into its global manufacturing, distribution, home delivery and retail design centers. Company environmental initiatives include but are not limited to:

- Use of responsibly harvested Appalachian woods, including maintaining a wood sourcing policy; more than 50% of its wood furniture sold is from materials sourced from certified, recycled or reclaimed wood.
- Use of finishes that are low in both volatile organic compounds and hazardous air pollutants
- Eliminating the use of heavy metals and hydrochlorofluorocarbons in all packaging
- Conversion, where and when reasonably feasible, to becoming per- and polyfluoroalkyl substances ("PFAS") free throughout all products
- Investment in machinery and technology to cut down the landfill waste generated by packaging furniture with custom-sized plastic wrap to reduce excess packaging
- Continual review and investigation of ways to reduce its carbon footprint and greenhouse gas emissions

Statement on Framework and Omissions

This report applies the IFRS S2 framework as the principal reference for climate-related disclosure. Ethan Allen has aligned its reporting with applicable requirements. Consistent with IFRS S2 and SB 261 guidance, certain disclosures are in the early stages of integration and have been omitted from this year's report.

Specifically:

- **Emissions Inventory, Metrics, and Targets:** Ethan Allen is still developing a complete GHG emissions inventory across Scope 1, Scope 2, and relevant Scope 3 categories. As a result, quantitative emissions figures, science-based reduction targets, and associated performance metrics have not been included in this year's report.

- **Opportunities:** While climate-related opportunities were considered as part of the broader assessment, they were not evaluated with the same level of detail as climate-related risks. The primary focus of the analysis was to understand potential vulnerabilities and areas of exposure, rather than to quantify opportunity-related financial impacts.

- **Scenario Analysis:** Full quantitative scenario modeling was not conducted due to limited availability of baseline financial and operational data. Qualitative scenario considerations were incorporated, and full modeling is being considered for future reporting cycles.

- **Forward-Looking Financial Impacts & Metrics:** The quantification of potential financial impacts from identified climate risks has not been included in this year's report. This work is in development as part of the company's broader integration of climate risk into its enterprise risk management and long-term financial planning processes. Current disclosures are qualitative in nature and intended to highlight potential areas of exposure rather than provide quantified financial outcomes. Future reporting cycles are expected to incorporate more detailed financial analysis once foundational data and processes are established.

2. Governance

Governance Overview

Ethan Allen maintains a strong governance foundation to ensure effective management and long-term value creation for stockholders. The Board of Directors brings a diverse mix of skills and experiences across retail, digital, real estate, technology, cybersecurity, marketing, and social responsibility, and provides general oversight of the Company's affairs, including strategic planning, succession, and risk management. Climate-related financial risks and opportunities are overseen through existing governance and risk management structures, with accountability shared across the Board, its committees, and management. Specific responsibilities are further detailed under Board Oversight and Management Oversight.

Board Oversight

The Board of Directors provides independent oversight of management's execution of business strategy, including the assessment and monitoring of climate-related risks and opportunities. Oversight of climate issues is carried out primarily through the Corporate Governance, Nominations, and Sustainability Committee, which reviews risk assessments, monitors management processes related to environmental, social and governance (collectively known as "ESG") matters, ensures the integrity of related reporting, and oversees compliance with applicable laws and regulations.

The Board oversees an enterprise-wide approach to risk management, designed to identify risk areas and provide oversight of mitigation strategies to support organizational objectives and enhance long-term performance. A fundamental part of this oversight is understanding the risks the Company faces and evaluating management's steps to mitigate them. The Board participates in discussions with management concerning business strategies and organizational objectives, which inform its assessment of risk tolerance. Information gathered throughout the Company is used to identify and prioritize major risks, which are then escalated to the Board as needed.

The Board also oversees sustainability matters, ensuring that corporate governance practices align with stakeholders' long-term interests. Ethan Allen believes that integrating ESG values into its business generates long-term value for the business, stockholders, and the global community. Corporate social responsibility commitments include environmental sustainability, community engagement, human rights, and transparency. Sustainability initiatives focus on reducing carbon footprint, electricity and water usage, and landfill waste. Each manufacturing facility collects and manages key data, which is reviewed by the Environmental, Health and Safety team to measure progress toward Company goals.

Management Oversight

Company management execute the Board's strategic oversight through its ESG Committee, formally established in 2023. The ESG Committee includes representatives from HR, finance, legal, facilities, operations, retail, compliance, merchandising, and marketing, and addresses climate-related impacts, regulatory developments, and mitigation strategies. Its work includes compliance with regulatory requirements such as SB 261, developing the Company's greenhouse gas inventory, and sourcing emissions data. Matters requiring further oversight are escalated to the Board.

On an annual and as-needed basis, the CEO and CFO present to the Corporate Governance, Nominations, and Sustainability Committee a detailed review of identified risks, including climate-related risks. These presentations are documented in Board minutes and provide additional information for capital allocation discussions. The CFO and Senior Director of Accounting and Controls partner to ensure proper disclosure of material risks in public filings and to oversee mitigation actions.

In addition to annual presentations, the CFO meets bi-weekly with management, including Vice Presidents of Manufacturing, Merchandising Logistics, and Retail, to discuss climate-related concerns. This cross-functional partnership between Finance and key divisions helps identify climate-related risks and ensures coordinated responses across the Company.

Integration into Risk Management and Strategy

Climate-related risks and opportunities are incorporated into the Company's broader risk management and strategic planning processes. This approach ensures that material transition and physical risks are evaluated alongside other operational and financial considerations. Senior leadership uses this integrated framework to inform decisions on capital allocation, resilience planning, and long-term sustainability priorities.

Climate factors are considered in risk management policies and enterprise-level discussions, helping guide operational resilience, site planning, and supply chain considerations. Opportunities such as energy efficiency improvements and sustainable sourcing are reviewed in the context of overall business strategy, supporting long-term value creation while balancing financial and operational objectives.

Responsibility for identifying and escalating climate risks is shared across relevant functions, with management teams incorporating climate considerations into the company's overall risk register and enterprise-level decision-making. This alignment helps ensure that climate risks are monitored consistently and factored into planning, resilience, and capital allocation discussions without requiring a separate framework.

3. Strategy

Strategy Overview

Ethan Allen's sustainability strategy includes integrating climate-related considerations into its operations, supply chains, and product development. Ethan Allen recognizes both transition and physical risks associated with climate change.

For the purposes of climate-related disclosures, Ethan Allen defines the short term as 0 – 3 years, the medium term as 4 – 10 years, and the long term as 11 – 50 years. These time horizons align with the planning periods used in overall financial planning. Climate-related considerations are considered in operational planning, supplier engagement, and financial decision-making, supporting the long-term resilience of the Company's strategy under anticipated climate scenarios.

Ethan Allen continues to monitor new and emerging regulatory developments, technological advancements, and evolving market expectations.

In the short term (0-3 years), the Company faces increasing regulatory compliance costs. These requirements create operational challenges but also opportunities to strengthen governance and enhance reporting capabilities. Over the medium term (4-10 years), climate impacts such as supply chain volatility, higher energy costs, and resilience challenges in technology could influence costs. In the long term (11-50 years), escalating physical risks from extreme weather and chronic water or energy stress may disrupt both supply chains and design center operations. A more detailed analysis of the Company's climate-related risks are presented below.

Material Climate-Related Risks

Ethan Allen's assessment incorporated external climate hazard data, internal operational insights, and stakeholder input. Risks were evaluated across Ethan Allen's supply chain and direct operations in California and assessed using the following three criteria to determine materiality:

- Likelihood of occurrence
- Severity of potential impact on operations, assets, or revenue
- Business relevance and resilience measures in place

This process helped create a prioritized list of material climate-related risks for disclosure, with a focus on physical and transition risks relevant to California.

Identified Climate-Related Physical Risks

Increased Expenditures, including Accelerated HVAC wear, from Chronic Heat Stress

Chronic physical risks associated with rising temperatures are increasingly impacting operational infrastructure across California. Ethan Allen's retail design and service centers are experiencing greater strain on its HVAC systems due to warmer seasons, which can accelerate equipment wear, shorten lifespans, and increase maintenance needs. For a furniture retailer like Ethan Allen, this may contribute to higher capital expenditures, elevated energy consumption, and potential service disruptions during periods of extreme heat.

While the severity of this risk is moderate, its high likelihood and long-term persistence make it a compounding operational and financial consideration. Cooling systems are essential to maintaining client comfort and employee productivity, particularly in large-format design centers (showrooms) and warehouse-style service centers. As the Company evaluates energy-efficient upgrades, preventative maintenance, and climate-resilient infrastructure, this risk will continue to be monitored for its potential to affect operating costs and reliability. Over time, unmanaged impacts could place pressure on financial operating margins or affect service quality, underscoring the importance of ongoing review and adaptation.

Reduced Foot Traffic and Revenue Loss from Poor Air Quality Days/Fire-related Events

Acute physical risks from poor air quality, primarily driven by wildfire smoke and heat-related pollution, may disrupt client engagement and sales performance in California retail locations. During elevated Air Quality Index (AQI) days, foot traffic may decline, especially in outdoor shopping centers and urban areas with limited ventilation. For a retailer reliant on in-person showroom experiences, which account for more than 95% of total sales, this can contribute to short-term revenue volatility, reduced conversion rates, and potential impacts on client satisfaction.

Operational impacts could also include staffing challenges and increased HVAC demand during smoke events. Temporary declines in foot traffic can negatively influence inventory turnover and promotional effectiveness. The risk is considered frequent and of moderate severity, with both financial and reputational implications. Ethan Allen continues to evaluate mitigation measures, such as improved air filtration, flexible staffing, and expanded remote (online) consultation options, to help maintain client engagement during periods of poor air quality. Sustained, recurring and significant poor air quality events may eventually require a reevaluation of the Company's retail design centers, location strategy, and client outreach protocols.

Insurance Cost Volatility and Procurement Disruption from Severe Weather in International Sourcing Regions

Severe weather events and changing weather patterns in international sourcing regions, such as typhoons, flooding, and extreme rainfall, are driving up insurance premiums and disrupting logistics. Ethan Allen sources raw materials and finished goods from all parts of the world, including from the Asia-Pacific and Latin American regions, where these climate hazards are intensifying. Potential impacts include higher shipping costs, delayed deliveries, and increased cost of goods, particularly during seasonal inventory cycles. These disruptions can affect supplier reliability, inventory planning, and client fulfillment, especially in high-demand periods. To maintain resilience and cost-stability, Ethan Allen continues to review opportunities for sourcing diversification, climate-informed supplier engagement, and enhanced supply chain visibility.

Identified Climate-Related Transition Risks

Financial Exposure from Climate-Related Mortgage Default and High Deductibles

Climate-driven changes to insurance markets and mortgage stability in flood- and wildfire-exposed regions are increasingly shaping financial conditions for commercial properties in California. For Ethan Allen, these trends may influence lease arrangements, landlord stability, and the cost of occupying leased sites in higher-risk zones. Rising deductibles and increased risk of mortgage default can create indirect financial exposure through renegotiation pressures, potential asset devaluation, or coverage gaps that may be passed through to tenants. This exposure is most relevant over the medium term, with moderate likelihood and severity. It may affect lease renewals, site viability, and long-term capital planning. Enhanced due diligence in lease structuring, insurance review, and site-level climate vulnerability assessments will help manage unexpected cost increases or operational disruptions. Proactive engagement with landlords and insurers, along with climate-integrated lease terms, will support a more stable occupancy and business continuity over time.

Limited Insurance Coverage in Flood and Wildfire-Prone Zones

Retail and service center locations in flood and wildfire-prone zones face limited insurance coverage options and rising deductibles. This creates financial exposure in the event of climate-related damage, particularly for leased assets where adaptation measures fall outside Ethan Allen's direct control. The Company considers this moderately likely and potentially significant over the long-term, with implications for financial planning, lease negotiations, and business continuity.

Proactive engagement with landlords and insurers, along with clear climate-related disclosures, will be important to managing this exposure. Strengthening lease terms, conducting site-level climate assessments, and exploring alternative coverage options may help reduce the potential for uninsured losses following major events. Over time, Ethan Allen may also consider adjusting site selection criteria to reduce exposure in higher-risk zones.

Rising Insurance Costs from Climate Exposure and Policy Shifts

This risk is categorized as a transitional climate risk, driven by changes in insurance practices and regulatory expectations rather than direct physical damage. As climate risks become more material, insurers are tightening coverage terms and increasing premiums across California, which can raise costs and reduce flexibility in lease negotiations for a furniture retailer with multiple sites.

The primary drivers are evolving underwriting standards, heightened scrutiny of climate exposure, and regulatory pressure on insurers to align with climate risk models. These external shifts influence financial exposure even when operations are not directly impacted by climate events. Ethan Allen is monitoring these developments and pursuing strategies such as climate-integrated lease planning, proactive engagement with insurers, and alignment of disclosures with SB 261. Without adaptation, transitional pressures could lead to escalating costs, coverage gaps, and reputational challenges.

Increased Exposure from Lack of Retrofit and Removal of Climate Incentives

The gradual reduction of climate-related incentives, such as energy efficiency rebates or retrofit subsidies, may increase the cost of maintaining and upgrading retail and service-center infrastructure. As incentive programs phase out or become oversubscribed, companies may face higher upfront costs for energy-efficient equipment and building improvements, which can contribute to higher operating costs and reduced energy performance.

The absence of a proactive retrofit strategy compounds these impacts. Without systematic upgrades to HVAC systems, lighting, insulation, and other infrastructure, businesses may face challenges meeting building standards, energy-performance expectations, and evolving climate-disclosure requirements, which in turn can lead to compliance challenges, reputational scrutiny, and reduced competitiveness.

Together, these dynamics create a transitional risk that is moderate in likelihood and severity but material over the long term. Ethan Allen continues to monitor policy developments and evaluate options for retrofit planning, climate-resilient infrastructure, and alignment with disclosure expectations.

Addressing Climate-Related Opportunities

As climate risks evolve, Ethan Allen is actively exploring opportunities to enhance resilience, reduce emissions, and align with emerging stakeholder expectations. Several areas have been identified for future investment and strategic development, particularly those that offer operational benefits, cost savings, and reputational value. Opportunities identified include integrating additional climate risk data into future design center site selection models, piloting low-carbon delivery options, and exploring sustainable material sourcing strategies. These initiatives reflect Ethan Allen's commitment to proactive climate adaptation and long-term operational resilience.

Integration into Operations, Strategy, and Financial Planning

Ethan Allen is in the early stages of integrating climate considerations into its operations, strategy, and financial planning. Current efforts are focused on meeting the requirements of SB 261 by identifying, assessing, and disclosing material climate-related risks. This includes developing foundational capabilities such as risk identification, data collection, and climate-informed decision-making processes.

Ethan Allen is actively exploring how climate considerations may inform long-term operational and financial planning. This includes evaluating potential impacts on site selection, supply chain resilience, insurance costs, and capital expenditures. Future work will focus on assessing best practices, benchmarking against peers, and determining the most effective pathways for embedding climate-related insights into strategic and financial planning.

Strategy Resilience and Future Outlook

Looking ahead, Ethan Allen intends to continue evaluating best practices, peer approaches, and regulatory guidance to inform future integration of climate considerations. This measured approach ensures compliance with SB 261 while maintaining flexibility to adapt strategy as internal capabilities mature and external expectations evolve. At present, resilience planning remains exploratory, with future work expected to focus on building the analytical foundation necessary to assess long-term climate pathways and their relevance to the company’s business model.

4. Risk Management

Risk Management Overview

Ethan Allen manages climate-related risks through its existing governance and enterprise risk management structures. Climate-related risks with potential financial or operational relevance are identified, assessed, and managed as part of the Company’s broader risk management processes. Senior leadership and the Board are engaged as needed to support climate-informed decision-making and resource allocation, with material risks escalated when relevant to operations or long-term planning.

Identification and Assessment of Climate Risks

Ethan Allen employs a structured process to identify and assess climate-related dependencies, impacts, risks, and opportunities across its operations and supply chain.

Key elements of the process include:

- **Scope:** Direct operations in California, with consideration for Tier 1 suppliers and broader global operations.
- **Methodology:** Internal methods, jurisdiction-specific databases, external consultants, peer and industry benchmarking, and internal stakeholder consultation.

- **Risk Criteria:** Environmental hazards (drought, floods, heat waves, wildfires, changing precipitation, temperature extremes), regulatory developments, market and supply chain risks, reputational considerations, and transition-related factors such as technology.
- **Assessment Approach:** Quantitative and qualitative scoring using a documented risk matrix. Risks rated as medium or high are prioritized for disclosure and future mitigation planning.

The assessment incorporates data from public sources, regulatory guidance, industry standards, non-governmental organizations (NGO) insights, and internal expertise. Inputs are gathered from key functions, including retail operations, logistics, design center development, finance, and compliance, ensuring that both physical and transition risks are considered across the Company's value chain.

Risk Mitigation and Management

The risk management process considers potential mitigation and adaptation strategies. These include strengthening operational resilience, evaluating insurance and compliance exposures, and exploring opportunities to align with emerging regulatory requirements. Progress on these activities is monitored internally and reviewed by executive leadership, with material items escalated to the Board's governance committees through established reporting channels.

Risks are prioritized based on their relevance to operations and financial condition, with documentation maintained to support transparency and repeatability. This process provides a foundation for continued integration of climate-related risks into enterprise risk management and financial planning as data and capabilities mature.

Integration with Enterprise Risk Management

The risk management function leverages cross-functional input from IT operations, procurement, finance, human resources, and retail teams to identify emerging climate exposures and ensure coordinated responses.

The Company performs an annual scenario analysis to evaluate potential impacts on operations and supply chains, with findings considered in strategic planning, capital allocation, and investment decision-making where relevant. The Company has also established internal procedures to address climate-related operational disruptions, such as extreme weather events, that may impact manufacturing, logistics, or design center operations.

Monitoring, Review, and Continuous Improvement

Ethan Allen conducts periodic reviews of climate-related risks and mitigation measures as part of its ongoing risk oversight processes. Updates are provided to senior leadership and the Board through established reporting channels. Material changes in climate-related risk exposure are escalated as appropriate to ensure timely awareness and response.

The Company continues to refine its data capabilities and methodologies to support more robust climate risk assessments over time and to enhance transparency and repeatability in future disclosures.

5. Metrics and Targets

Metrics and Targets Overview

At present, Ethan Allen has not included quantitative climate-related metrics or science-based targets in this report. The absence of a complete emissions inventory across Scope 1, Scope 2, and Scope 3 categories limits the ability to establish measurable baselines or reduction pathways. While Ethan Allen maintains certain standing, non-scientific sustainability targets exist, but these are not disclosed here as they do not provide a tangible framework for emissions reduction. The Company is focused on building its carbon inventory and foundational data systems, which will support more robust disclosure of metrics and targets in future reporting cycles. Ethan Alen has not set a target for GHG emissions reductions at this time.

6. Forward Looking Statements

This SB 261 report includes statements about Ethan Allen's climate-related risks, opportunities, and actions that look toward the future. These statements reflect Ethan Allen's current understanding and expectations, which are based upon currently available data.

These statements are not guarantees of future performance. They involve assumptions and uncertainties that may prove inaccurate over time as conditions change. Actual outcomes could differ materially due to factors such as shifts in policy or regulation, the rate of technological innovation and adoption, changes in consumer demand, market and economic volatility, and the physical impacts of climate change itself.

Ethan Allen's climate-related disclosures are presented in good faith and based on information available at the time of publication. Readers are encouraged to consider these inherent limitations when interpreting the information contained in this report.