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CORPORATE PARTICIPANTS

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Timothy Scott Davidson *Natural Health Trends Corp. - Senior VP, CFO, Chief Compliance Officer & Secretary*

CONFERENCE CALL PARTICIPANTS

Ariel Papermaster *ADDO Investor Relations - Senior Associate*

PRESENTATION

Operator

Greetings, and welcome to the Natural Health Trends Corporation Third Quarter 2021 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ariel Papermaster. Thank you, Ariel. You may begin.

Ariel Papermaster - *ADDO Investor Relations - Senior Associate*

Thank you, and welcome to Natural Health Trends Third Quarter 2021 Earnings Conference Call. During today's call and may be statements made relating to the future results of the company that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995.

Actual results, performance or achievements could differ materially from those anticipated in such forward-looking statements through the result of certain factors, including those set forth in the company's filings with the Securities and Exchange Commission. It should also be noted that today's call will be webcast live and can be found on the Investors section of the company's corporate website at naturalhealthtrends.com. Instructions can be found for accessing the archived version of the conference call in today's financial results press release, which was issued at approximately 9:00 a.m. Eastern Time.

At this time, I'd like to turn the call over to Chris Sharng, President of Natural Health Trends.

Chris T. Sharng - *Natural Health Trends Corp. - President, CEO & Director*

Thank you, Ari, and thanks to everyone for joining us this morning to discuss our third quarter 2021 financial results. With me today is Scott Davidson, our Senior Vice President and Chief Financial Officer. Our third quarter performance continued to reflect the challenging macroeconomic environment, experienced during the first and second quarters of 2021 as the ongoing COVID-19 pandemic continues to cause disruptions and lockdowns in many of our core markets.

Despite the persistence of these difficult operating conditions, we are reporting our sixth consecutive quarter of positive operating income and net income. We generated revenue of \$14.3 million, a decrease of 12% compared to \$16.2 million in the second quarter of 2021, and an increase of 1% compared to \$14.1 million in the third quarter of 2020. Our third quarter results in comparison to the prior quarter reflect the increased frequency and severity of coronavirus outbreaks and the reinstatement of government-mandated restrictions in several key markets, which adversely impacted our members' abilities to hold in-person meetings and events.

Revenue increased 1% from the third quarter of 2020 due to improvements in certain markets with net sales increasing 3% year-over-year outside Hong Kong. As we continue to navigate the evolving operating environment, resulting from the COVID-19 pandemic, our members continue to face challenges as they work to conduct their business in the face of renewed government-mandated restrictions and lockdowns. To this point, the third quarter of 2021 marked the first quarter since the beginning of the pandemic.

We were unable to sponsor any in-person member events in China, Macau or Hong Kong. In fact, we had to abruptly cancel our previously scheduled event in September. However, due to the hard work and dedication of our employees, leaders and members, we were able to quickly adapt our

marketing activities in the quarter. We held multiple virtual events and training sessions in place at the previously planned in-person events. Importantly, these virtual events help contribute to a 2% increase in order volume from the prior year period. On a sequential basis, order volume declined 18% from the second quarter primarily due to the effect of our major in-person event held in Macau in June.

Given the ever-changing restrictions in many of our markets, we remain focused on managing the elements of our business within our control and made positive strides in executing our strategy and improving our operational performance. We made progress in expanding our business into emerging markets, introducing new products and implementing operational enhancements to better incentivize and engage our members. Additionally, we continue our efforts to prudently manage our product promotions and expense base to preserve our margins which in turn delivered our sixth consecutive quarter of positive operating income and net income.

In September, we also successfully launched a new product, Skindulgence Probiotic Ampoule, a daily facial serum in fuels with probiotics and prebiotics, to support healthy skin through our virtual training event. Moreover, in regards to new products, we have 2 new exciting high-quality wellness products we intend to launch later this year. Turning to our geographical expansion priorities, we are working to further diversify our operations into new markets. Despite the challenging environment, a number of our emerging markets still achieved positive performance with Peru, Japan, CIS and India, all are experiencing growth year-over-year. We are particularly optimistic about the economic recovery and sales growth in both Peru and India, and we believe these markets represent a significant opportunity.

Additionally, with the help of our Peruvian leadership team, we have resumed our efforts to establish a presence in both Bolivia and Colombia, given the strong reception and traction we managed to achieve in the Peruvian market and the contacts that our existing members have in these countries.

With respect to technology updates, we introduced 2 new payment solutions during the quarter to streamline the ordering process. We rolled out a single order multiple payments feature in Hong Kong in September that allows members to pay for orders using a combination of e-wallet, credit card and various other payment options. In July, we launched Klarna installment payment solution, which provides members flexible payment options in the United States and Europe. We have seen a particularly strong rate of adoption in Europe with 18% of orders placed through Klarna since rollout.

Additionally, I would like to reiterate that the SEC has closest investigation initiated in August 2016, and the IRS has completed its tax audit that started in October 2018. We fully cooperated with the SEC and the IRS throughout their respective review of processes. The SEC did not recommend any further action and the IRS agreed with our tax returns. In conclusion, we are hopeful the more severe restrictions implemented during the quarter have helped control the spread of additional COVID-19 outbreaks. And we are cautiously optimistic we will be able to gradually resume in-person member events and activities. Despite ongoing macroeconomic challenges and our third quarter financial performance deliver revenue and order volume growth year-over-year and our sixth consecutive quarter of positive operating income and net income profitability.

While we continue to execute through this difficult operating environment, we remain highly focused on the fundamentals of our business, including supporting our members, maintaining our strong financial discipline and operating our business efficiently to maximize value for our stockholders. I would also like to thank all of our loyal members, preferred customers, employees and stockholders for their dedication to NHT Global. With that, I'd like to turn the call over to our CFO, Scott Davidson, to discuss our financial results in greater detail. Scott?

Timothy Scott Davidson - *Natural Health Trends Corp. - Senior VP, CFO, Chief Compliance Officer & Secretary*

Thank you, Chris. Total revenue for the third quarter was \$14.3 million, a decrease of 12% compared to \$16.2 million in the second quarter of 2021, and an increase of 1% compared to \$14.1 million in the third quarter of 2020. As Chris highlighted, the sequential quarter decrease in revenue was primarily due to the ongoing operating challenges resulting from scattered COVID-19 outbreak in China, and the superior measures implemented by the Chinese government to control the virus, including business closures, public gathering limitations and travel restrictions. While we remain cautiously optimistic, the macroeconomic environment and operating conditions will improve. We anticipate our financial results will continue to be impacted by the ongoing effects of the pandemic given the continuing outbreak and spikes in COVID-19 cases.

Our active member base decreased 2% to 45,950 at September 30 from 46,860 at June 30 and down 14% from [53,300] at September 30 last year. Turning to our cost and operating expenses. Gross profit margin of 74.3% was consistent with the third quarter of last year. Excluding the impact of administrative fee revenue, gross profit margin increased as compared to the comparable period of last year due to lower logistics costs and fewer product promotions.

Commissions expense as a percent of total revenue for the third quarter increased to 42.2% from 39.8% in the prior year quarter. Excluding the impact of administrative fee revenue, commissions expense decreased slightly as compared to the prior year period.

Selling, general and administrative expenses for the quarter were \$4.1 million compared to \$4.2 million a year ago. As a result, operating income for the quarter was \$479,000 compared to \$668,000 in the third quarter last year. We recorded an income tax benefit of \$45,000 for the quarter compared to an income tax provision of \$418,000 recognized in the third quarter last year. Net income for the third quarter totaled \$471,000 or \$0.04 per diluted share compared to \$635,000 or \$0.06 per diluted share in the third quarter of 2020.

Now I'll turn to our balance sheet and cash flow. Total cash and cash equivalents were \$84.6 million at September 30, down slightly from \$88.1 million at June 30. Net cash used in operating activities was \$1.1 million in the third quarter compared to \$512,000 in the third quarter last year. As returning capital to our stockholders remains a top priority, I'm happy to note that on November 1, our Board of Directors declared another quarterly cash dividend of \$0.20 per share, which will be payable on November 26 to stockholders of record as of November 16.

In conclusion, I am pleased with our third quarter financial results as we continue to navigate the evolving macroeconomic environment amidst continued COVID-19 outbreaks. We delivered growth in top line revenue and order volume from the prior year period and positive operating income and net income for the sixth consecutive quarter. We remain committed to supporting our members and employees executing our strategy and prudently managing our business operations to emerge from the pandemic well positioned to take advantage as the economy steadily recovers.

That completes our prepared remarks. I will now turn the call back over to the operator.

Operator

This concludes today's conference. You may now disconnect your lines. Thank you for your participation.

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