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NHTC.OQ - Q1 2021 Natural Health Trends Corp Earnings Call

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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

Kimberly Orlando *ADDO Investor Relations - SVP*

PRESENTATION

Operator

Greetings. Welcome to Natural Health Trends First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded. I will now turn the conference over to Kim Orlando from Investor Relations. Kim, you may begin.

Kimberly Orlando - *ADDO Investor Relations - SVP*

Thank you, and welcome to Natural Health Turns First Quarter 2021 Earnings Conference Call. During today's call, there 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 due to 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, Kim, and thanks to everyone for joining us this morning to discuss our first quarter 2021 financial results. With me today is Scott Davidson, our Senior Vice President and Chief Financial Officer.

I'll begin with a review of our first quarter financial performance, which reflected the impact of the ongoing pandemic and seasonality resulting from the Chinese New Year holidays. Revenue of \$13.5 million decreased 10% compared to \$14.9 million in the first quarter of 2020. Following a highly productive January the government-mandated travel restrictions around the Chinese New Year holidays, which were much more severe than what we had experienced in the previous year, resulting in roughly 3 weeks of last working days in February. We also experienced a surge in orders late in the first quarter, which resulted in an increase in our ship orders as of the end of March with our quarter end deferred revenue balance increasing \$1.1 million from December to March. This accounts for a substantial amount of the reduction in our first quarter revenue which we expect to recognize in Q2. Notwithstanding the challenges, we reported our fourth consecutive quarter of positive operating income and net income in addition to our second consecutive quarter of positive cash flow generation. Importantly, despite the severity of the social gathering restrictions, our first quarter order volume was still consistent with the prior year quarter.

As a reminder, our order volume in the first quarter of 2020 was bolstered by several product promotions, including one for essential probiotic products to support immune health at the onset of the COVID-19 pandemic. The curtailing of product promotions, a year later, was made evidenced by the significant improvement in our first quarter gross profit margin. A strong contributor to our order volume in the first quarter of 2021 was our January in-person Fly High training in China, which attracted nearly 700 participants. After hosting predominantly virtual events through the pandemic, the January Fly High event was very well received and attended.

Our second attempt at an in-person Fly High in China during the quarter was postponed from March to early April due to some local COVID-19 outbreak. That said, the most recent Fly High event also turned out very positive with the number of attendees exceeding that of the January event.

Following the occasion, our leaders have continued to sponsor and organize a series of marketing activities, including product and business training road shows. Next, we expect to hold our first major in-person event since the beginning of the pandemic in Macau, in June, where we intend to introduce a new wellness product, time release ultracomplex to an audience of over 1,500.

In addition, as I alluded to on our last call, we began the implementation of social selling in select markets outside of China to further facilitate awareness and knowledge of our product lines and business opportunity. During our e-form online event in early April, we unveiled customized media online tools for our members in North America, Peru, India, Europe and CIS. The social media tools include a virtual library with ready-to-share content, such as photos, videos and infographics, organized by topic in addition to sample post captions specific to each market that members can download to refer to our products and business, all in a compliant manner. We have also included training directors that detailed best practices for use of the new tools, along with challenged incentives such as free product and cash prizes for members that utilize social selling.

Next, I'll turn to a discussion on the notable progress we made during the first quarter in Japan, India, Peru, Europe and Malaysia, which all experienced strong top line growth year-over-year. Importantly, all of these markets have returned or exceeded pre pandemic volume levels.

In summary, despite various challenges outside of our control during this quarter, we were very pleased to have sustained solid order momentum, similar to levels in the first quarter of 2020 at much better gross margin and to also maintain bottom line profitability for the fourth consecutive quarter. I'd like to sincerely thank all of our leaders for their ongoing dedication and commitment to NHT Global. We have continued to retain all of our top leaders through these challenging times, who remain our key differentiating factor as a company and are crucial to our success moving forward. I'd like to also thank all of our loyal members, preferred customers, employees and stockholders for their continued support of NHT Global. We look forward to a productive second quarter. 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 first quarter was \$13.5 million, a decline of 10% compared to \$14.9 million in the first quarter of 2020. As Chris mentioned, the year-over-year decline in revenue was primarily due to the restricted government measures over the extended Chinese New Year holiday period in February as well as an increase in unshipped orders at the end of the quarter. While we remain cautiously optimistic the macroeconomic climate will improve, we expect our financial results may continue to be adversely impacted by the lingering effects of the pandemic as cities work to ease restrictions and reopen slowly and safely. Our active member base decreased 5% to 49,420 at March 31 from 52,230 at December 31, and was down 13% from 56,490 at March 31 last year.

Turning to our cost and operating expenses. Gross profit margin of 75.8% increased from 69.8% in the first quarter last year due to lower adjusted cost, fewer product promotions and an increase in administrative fee revenue. Commissions expense as a percent of total revenue for the first quarter decreased to 40.9% from 44.2% in the prior year quarter. Excluding the impact of the increase in administrative fee revenue, commissions expense decreased slightly year-over-year. Selling and administrative expenses for the quarter decreased 15% to \$4.5 million from \$5.3 million a year ago. The decrease in our SG&A from the prior year quarter reflects lower event related costs, professional fees and lease costs. As a result, operating income for the quarter was \$220,000 compared to our operating loss of \$1.4 million in the first quarter last year.

We recorded an income tax provision of \$87,000 for the quarter, compared to our income tax benefit of \$782,000 recognized in the first quarter last year. Net income for the first quarter totaled \$153,000 or \$0.01 per diluted share compared to a net loss of \$573,000 or \$0.05 per diluted share in the first quarter of 2020.

I'll now turn to our balance sheet and cash flow. Total cash and cash equivalents were \$90.2 million at March 31, down slightly from \$92.4 million at December 31. Net cash provided by operating activities was \$414,000 for the first quarter compared to net cash used in operating activities of \$990,000 in the first quarter last year. As returning capital to our stockholders remains a top priority, I am pleased to announce that on May 3 our Board of Directors declared another quarterly cash dividend of \$0.20 per share, which will be payable on May 28 to stockholders of record as of May 18.

In closing, I am pleased with the operational execution our loyal members and employees have demonstrated in a challenging environment. As we look ahead, we believe that our strong balance sheet, effective working capital management, diligent expense management and capital allocation strategy will enable us to continue to support our members, drive growth in our business and deliver value to our stockholders. As we continue to emerge from the pandemic, we believe we are well positioned to begin the process of safely resuming our normal business operations as the economy recovers. That completes our prepared remarks. I will now turn the call back over to the operator.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.

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