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NHTC.OQ - Q3 2020 Natural Health Trends Corp Earnings Call

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## CORPORATE PARTICIPANTS

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

**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 the National Health Trends Corp. Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to Kim Orlando with Addo Investor Relations. Thank you. You may begin.

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**Kimberly Orlando** - *ADDO Investor Relations - SVP*

Thank you, and welcome to Natural Health Trends Third Quarter 2020 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 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](http://naturalhealthtrends.com). Instructions can be found for accessing the archived version of the conference call and today's financial results press release, which is 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.

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**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 third quarter 2020 financial results. With me today is Scott Davidson, our Senior Vice President and Chief Financial Officer.

The challenging macroeconomic conditions inherent in the global economy, as a result of the COVID-19 pandemic, continue to weigh on our financial performance with our third quarter revenue totaling \$14.1 million. Despite the difficult operating environment and adverse impact to our top line, our diligent expense management resulted in our second consecutive quarter of positive operating income.

Our total third quarter orders were relatively consistent with both the prior quarter and the first quarter of 2020 with our deferred revenue balance increasing by \$832,000 from June to September, accounting for the change in revenue. Additionally, there were a number of bright spots in certain markets with third quarter order volume exceeding that of both Q1 and Q2 levels.

Accordingly, revenue outside of Hong Kong increased 10% over the prior quarter, with notable strength in Peru, Taiwan, Malaysia and India. While order volume in Hong Kong and China remain under pressure, we have begun to see improving business conditions in the region with the economy slowly reopening throughout the third quarter.

Since late August, our leaders have been able to sponsor relatively small meetings. The gradual reopening also allow us to reduce reliance on product promotions, which is part of the reason our margins improved. As the severity and duration of the pandemic remains uncertain, we have proactively adapted parts of our marketing programs to overcome some of the physical restrictions imposed through product promotions and virtual training opportunities. We webcast training sessions nearly every weekend, and held 2 larger success e-foreign events with 500 participants each. We also have plans for multiple in market fly high incentive trips beginning this month. As well as other international incentive travels scheduled in 2021.

As previously announced, we canceled both of our major member events planned for 2020 as protecting the health and safety of our members, employees and customers remains our top priority. We are currently hopeful we will be able to hold larger in-person member events sometime next summer.

Now turning to discussion on our growth initiatives. We made positive strides in this regard during the third quarter despite COVID-19 delaying some of our progress. Our preferred customer program to engage those solely interested in product consumption has been gaining traction in several markets. We now have the feature available in Europe, India, and Russia, and expect to launch it in Peru and Mexico by the end of the year.

Sales in Peru, which was one of our most effective markets by the pandemic, have rebounded and exceeded those reported in the first quarter this year. Additionally, after unveiling several new products in the prior quarter, we saw sales drastically improved in India in Q3 with a growing active and preferred member base.

Finally, despite not holding a major in-person member event, we were thrilled to release a new product during the third quarter. Our Twin Slim Probiotics, which was designed to help support weight management. Twin Slim Probiotics positively contributed to our order volume in both August and September.

In summary, despite the adverse impact the pandemic continues to have on our financial results, I am very pleased with our ability to continue to manage the elements of our business that are within our control. Compared to the prior quarter, we achieved double-digit revenue growth in our emerging markets, and both positive operating income and net income. We remain encouraged by the stability and resilience of our few leadership, having retained all of our top leaders through this economic slowdown.

I'd like to extend my gratitude to all of our leaders, members and preferred customers for their unwavering commitment to NHT Global. Through all of the challenges 2020 has presented, we are very grateful to continue supporting our mission of improving health and quality of life through our superior products and global opportunity.

With that, I'd like to turn the call over to our CFO, Scott Davidson, to discuss our third quarter 2020 financials in detail. Scott?

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

Thank you, Chris. Total revenue for the third quarter was \$14.1 million, a decrease of 17% compared to \$17 million in the third quarter of 2019. The year-over-year decline was primarily due to the continued difficult operating conditions stemming from the COVID-19 environment, and the resulting challenges this has presented for our members as they work to overcome meeting, event and travel restrictions to conduct their business.

While we expect our financial results will continue to be adversely impacted by the pandemic, we are encouraged by our members' efforts to embrace technology, communicate virtually and adapt to the evolving operating environment. As well as the positive economic trends and progress towards recovery we are witnessing across many of our markets.

Our active member base decreased 2% to 53,300 at September 30, from 54,400 at June 30 and was down 22% from 68,150 at September 30 last year.

Turning to our third quarter cost and operating expenses. Gross profit margin of 74.3% was consistent with the third quarter last year as an increase in administrative fee revenue offset additional logistics cost and product promotions put into place to help support and incentivize our members

impacted by the pandemic. Commissions expense as a percent of total revenue declined to 39.8% from 43.2% in the third quarter last year. Excluding the impact of the increase in administrative fee revenue, commissions expense would have been roughly unchanged year-over-year.

Selling, general and administrative expenses decreased 34% to \$4.2 million from \$6.4 million a year ago. The decrease in SG&A versus the prior year period reflects the effectiveness of the cost reduction measures we implemented in the second half of 2019 to better align our expense base with our current level of revenue.

We maintained positive operating income for the quarter, which totaled \$668,000 compared to operating loss of \$1.1 million in the third quarter last year. We recorded an income tax provision of \$418,000 for the quarter compared to \$502,000 in the third quarter last year.

Net income was \$635,000 or \$0.06 per diluted share compared to a net loss of \$1.2 million or \$0.12 per diluted share in the third quarter last year.

Now I'll turn to our balance sheet and cash flow. Total cash and cash equivalents were \$90.8 million at September 30, down slightly from \$93.2 million at June 30. Net cash used in operating activities was \$512,000 in the third quarter compared to \$3.7 million in the third quarter last year. We remain very confident in the strength of our balance sheet and our conservative capital allocation strategy focused on delivering value to our shareholders and revitalizing growth in our business.

I am pleased to announce that our strong liquidity position has enabled us to maintain our quarterly dividend. On November 2, our Board of Directors declared another quarterly cash dividend of \$0.20 per share, which will be payable on November 27 to stockholders of record as of November 17. Our Board of Directors will continue to monitor the economic environment and evaluate our capital allocation strategy going forward to determine the most efficient use of capital to drive shareholder value.

As we look ahead, we remain committed to supporting our members, prioritizing the health and safety of our employees and member base, and ultimately emerging from this crisis well positioned to drive profitable, sustainable growth to maximize value for our key stakeholders.

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

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## Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time, and have a wonderful day.

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