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NHTC.OQ - Q4 2021 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 Natural Health Trends Corp. Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded.

At this time, I'll now turn the conference over to Kim Orlando with ADDO Investor Relations. Kim, you may begin.

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

Thank you, and welcome to Natural Health Trends Fourth Quarter and Full Year 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 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](http://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.

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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 fourth quarter and full year 2021 financial results. With me today is Scott Davidson, our Senior Vice President and Chief Financial Officer.

We ended the year on a high note with a strong fourth quarter. Our revenue of \$16.1 million increased 13% over the third quarter of 2021. In addition, we achieved our seventh consecutive quarter of positive operating income and net income. The sequential improvement in revenue reflects strength in order volume given our increased ability to adapt to the ever-changing macroeconomic environment resulting from the pandemic.

We are extremely proud of our skilled leaders who have remained flexible and operated through these trying times. As discussed on our last conference call, the third quarter of 2021 was the first quarter since the beginning of the pandemic in which we were unable to organize any in-person events in China, Macau or Hong Kong.

In late December, we were able to cautiously resume some in-person activities. We sponsored a domestic Fly High training in (inaudible) with over 500 attendees. The event was designed to help motivate and better equip our existing leaders to conduct business amidst ongoing government-mandated restrictions in large scale.

While it is still difficult to ensure normal levels of attendance, demand for our products in the weeks that follow remain at healthy levels. We also held multiple webinars, online training sessions and events during the quarter to help sustain momentum.

Our deferred revenue balance grew by \$2.5 million from September 30 to December 31, 2021. This is a testament to our strong order volume, which increased 29% compared to the third quarter of 2021 and 20% over the fourth quarter of last year.

For the full year 2021, our order volume improved 9% over 2020 levels, which was supported by our successful second quarter event held in Macau along with multiple in-person Fly High trainings and road shows throughout the year.

We were very pleased to see that our [event] incentive structure and programs have resonated well with our leader base. In addition, our order volume trends demonstrate ongoing strength in demand for our high-quality products, which are designed to improve health and overall wellness.

Additionally, we were pleased to unveil a new product, Biotic Trio, which became available for sale in late November and contributed meaningfully to net sales. Biotic Trio is a daily supplement featuring not only prebiotics but also postbiotics together in one comprehensive formula to help restore beneficial gut bacteria. We look forward to releasing additional innovative products throughout 2022.

In regard to our markets outside of Hong Kong and China, we delivered encouraging results in Japan and Malaysia during the fourth quarter with net sales increasing over the prior quarter. In Japan, we achieved triple-digit growth in sales over both the prior quarter and year ago period, driven by the persistence of our leaders in the region to grow their business successfully through the pandemic. Japan alone contributed more than \$0.5 million of revenue in the fourth quarter, which increased by more than \$400,000 year-over-year.

Additionally, we remain optimistic that our operations in South America will further expand based on our success in Peru. We continue to direct additional resources to this region. And with the support of our Peruvian leadership team, we are making progress in establishing a presence in Colombia and Bolivia.

As the economy continues to recover, we believe we are well positioned to benefit from positive trends as consumers across the globe are increasingly focused on wellness-related products to support a healthy lifestyle.

As we look ahead into 2022, the effects of the COVID-19 pandemic and the associated government-mandated restrictions and lockdowns will likely continue to present headwinds to our business. These types of disruptions may adversely affect our ability to hold in-person meetings and events in the future, which are important to our operations.

However, in the interim, we believe we can continue to support our order volume due to the unwavering hard work and dedication of our employees, leaders and members, coupled with our ability to quickly respond and adapt to changing market conditions.

In summary, we are very pleased to end the year on a high note. Despite the uncertain operating environment since the onset of the pandemic, we remain focused on managing the elements of our business that are within our control to improve both our operational and financial performance. As such, we are guardedly optimistic we will benefit from a gradual resumption of in-person member events and activities going forward.

Thank you again to all of our loyal leaders, members, preferred customers, employees and stockholders for your ongoing support of 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?

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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 fourth quarter was \$16.1 million, a decline of 3% compared to \$16.6 million in the fourth quarter of 2020 and an increase of 13% compared to \$14.3 million in the third quarter of 2021. As Chris mentioned, the 29% increase in order volume over the prior quarter drove the sequential increase as in-person member events and activities gradually resumed on a limited basis.

For the full year of 2021, total revenue was \$60 million compared to \$62.1 million in 2020. The decrease in net sales primarily resulted from the \$5.5 million increase in deferred revenue during the year.

Additionally, variants and scattered outbreaks of COVID-19 continue to present challenges to our business as the operating environment remains restrictive. Our active member base declined slightly to 45,760 at December 31 from 45,950 at September 30 and was down 12% from 52,230 at December 31 last year.

Turning to our cost and operating expenses. Gross profit margin was 74.2% in the fourth quarter compared to 75.8% in the fourth quarter last year. For the full year, our gross profit margin of 75% increased from 72.6% in 2020 due to our negotiation of lower logistics costs and offer our fewer product promotions despite a decrease in administrative fee revenue.

Commissions expense as a percent of net sales for the fourth quarter increased to 44.1% from 41.4% in the prior year quarter due to higher incentive costs. On a full year basis, excluding the impact of administrative fee revenue, commissions expense as a percentage of net sales was relatively consistent with 2020.

Selling, general and administrative expenses for the quarter decreased 2% to \$4.4 million from the fourth quarter last year. For the full year, SG&A was \$17.8 million compared to \$18.2 million for 2020.

We maintained positive operating income for the quarter, which totaled \$487,000 compared to \$1.3 million in the fourth quarter last year. For the full year 2021, our operating income increased to \$1.6 million from \$669,000 in 2020, supported by our strong gross margin and reduced operating expenses despite lower administrative fee revenue.

We recorded an income tax provision of \$286,000 for the quarter compared to \$737,000 recognized in the fourth quarter last year. For the full year, we recognized an income tax provision of \$425,000 compared to \$647,000 for 2020.

Net income for the fourth quarter totaled \$232,000 or \$0.02 per diluted share compared to \$747,000 or \$0.07 per diluted share in the fourth quarter of 2020. For the full year, net income totaled \$1.1 million or \$0.09 per diluted share compared to \$843,000 or \$0.07 per diluted share in 2020.

Now I'll turn to our balance sheet and cash flow. Total cash and cash equivalents were \$83.8 million at December 31, down from \$84.6 million at September 30. Total cash and cash equivalents decreased by \$8.5 million from \$92.4 million at December 31, 2020, primarily due to dividends paid in 2021, offset by net cash provided by operating activities during the year.

Net cash provided by operating activities was \$1.6 million in the fourth quarter compared to \$3.4 million in the fourth quarter last year. For the full year, net cash provided by operating activities was \$1 million compared to \$1.9 million in 2020.

For the full year of 2021, we paid out \$9.1 million in dividends. As returning capital to our stockholders remains a priority, I am pleased to announce that on February 7, our Board of Directors declared a quarterly cash dividend of \$0.20 per share, which will be payable on March 4 to stockholders of record as of February 22.

In conclusion, I am very pleased with our financial and operational performance despite the difficult operating environment during 2021. The fourth quarter marked our seventh consecutive quarter of positive operating income and net income, and we generated \$1.6 million in cash flow from operations for the quarter.

As we look ahead, notwithstanding the residual effects of the pandemic, we are guardedly optimistic that we can carry our strong fourth quarter momentum into 2022. We remain focused on supporting our members and growing our business to ensure we are able to capitalize on any improvements in the operating environment in the coming months.

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. Thank you for your participation. Have a wonderful day.

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