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NHTC.OQ - Q4 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, and welcome to the Natural Health Trends Corp. Fourth Quarter and Full Year 2020 Earnings Call. (Operator Instructions)

As a reminder, this conference is being recorded. If anyone should -- I'm sorry.

I would now like to turn the conference over to your host, Ms. Kim Orlando, Investor Relations for Natural Health Trends. Thank you. 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 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 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 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 fourth quarter and full year 2020 financial results.

With me today is Scott Davidson, our Senior Vice President and Chief Financial Officer.

I'll begin with a review of our full year financial performance, which reflected the significant impact the ongoing pandemic had on our operations in 2020.

Revenue of \$62.1 million decreased 20% compared to \$77.6 million in 2019 as elements outside of our control such as government-mandated travel restrictions, shutdowns and limitations surrounding in-person events and activities hinder our leaders' ability to conduct business.

As such, we have been focused on elements within our control, such as: Number one, further reducing our cost structure; number two, ensuring our incentives remain attractive to our leaders and member base; and number three, expanding our operations in emerging markets.

The cost savings initiatives we implemented, starting in the second half of 2019, have resulted in substantial 2020 cost reductions. As a result, we reported full year operating income of \$669,000, a significant improvement compared to an operating loss of \$7 million in 2019.

These expense reduction measures were enacted without reducing headcount, and were focused on structural decreases, much of which is not expected to return to previous levels even as company sponsored activities slowly resume in 2021 and beyond.

Importantly, for the fourth quarter of 2020, total revenue of \$16.6 million increased 17% over the third quarter of 2020, with total fourth quarter orders improving 14% worldwide versus Q3.

In addition, we achieved our third consecutive quarter of positive operating income.

Beginning in the August, September timeframe, certain COVID-19-related restrictions began to ease in our key markets, which enabled us to sponsor some smaller events and therefore, reinvigorate order activity.

In November, we held our first in-person company-sponsored domestic event in 2020, a Fly High training, which was well attended despite ongoing fears surrounding the pandemic.

We also continued to host multiple virtual events and training sessions, including our Fly High online training webinar every Saturday. In addition, we are in the early phases of beginning the implementation of social selling in select key markets outside of China to further facilitate awareness and knowledge of our product lines and business opportunity. We look forward to expanding on this endeavor and providing additional details in the coming quarters.

Moreover, we successfully launched several new products in 2020, including our new water purifier in June on our Chinese e-commerce platform, along with Twin Slim Probiotics during the third quarter in Hong Kong, both through smaller-scale product road shows.

Given the challenging operating environment over the course of past year, this was the first time ever that we launched new products outside of an arena or larger foreign to help promote them. However, we were pleased to learn that the order volume on these new products was comparable to previous orders we would have received if we were to have launched these products at a major event.

A second key element of our strategy involves making sure our incentives remain attractive, to motivate our leaders and members who are crucial to our success. We have extended qualification periods for certain incentive trips due to COVID-19 from the first half of 2020 into the second half of 2020 and further into 2021 and 2022.

Most recently, we held a second in-person Fly High training in early January and plan to hold a third in April. As previously announced, we canceled both of our major member events planned for 2020 as 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 or fall, including one to celebrate the 20 anniversary of NHT Global.

Next, I'll turn to a discussion of our emerging market initiatives, which have remained a priority despite some headwinds associated with COVID-19. We remain very optimistic about India, which surpassed our expectations in 2020, with annual sales increasing nearly 50% year-over-year. The bulk of the progress was made during the fourth quarter of 2020, with order volume far exceeding that of pre-pandemic levels.

We also saw positive performance in the markets of Japan, Malaysia and Singapore which all experienced strong top line growth in 2020.

Likewise, our preferred customer program for those solely interested in product consumption has been gaining traction in several markets. This feature is now available in the U.S., Europe, India, Russia, Peru and Mexico.

In summary, we were very pleased with our fourth quarter results, which began to demonstrate a reversal of the trend the pandemic has had on our business in 2020. We achieved double-digit revenue growth over the third quarter of 2020 along with our third consecutive quarter of positive operating income and net income profitability.

If the slow resumption of events and other member activities be allowed to continue in a safe manner and in line with public health guidelines, we believe our business should benefit from the trend.

Before I conclude, I would like to extend my sincerest gratitude to our strong leader base who have worked tirelessly to maintain momentum even in the most challenging times. I am pleased to report that we have retained all of our top leaders through the economic slowdown. I'd like to also thank all of our loyal members, preferred customers, employees and stockholders for their dedication to NHT Global.

We look forward to continuing to improve health and quality of life on a global scale through our high-quality, specialized products and unique business opportunities.

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 \$16.6 million, a decline of 7% compared to \$17.8 million in the fourth quarter of 2019 and an increase of 17% compared to \$14.1 million in the third quarter of 2020.

As Chris highlighted, the 14% increase in order volume over the prior quarter drove the sequential increase as member activities were able to slowly resume on a smaller scale.

For the full year of 2020, total revenue was \$62.1 million compared to \$77.6 million in 2019. The year-over-year declines in revenue for the fourth quarter and full year 2020 were primarily due to the difficult operating conditions that arose from COVID-19, and the resulting challenges the pandemic has presented for our members as they work to overcome meeting, event and travel restrictions to conduct their business.

While we are cautiously optimistic macroeconomic conditions will improve, we expect our financial performance may continue to be adversely impacted in the near term as some of our markets have experienced resurgences of COVID-19 that have required renewed restrictions and closures.

Our active member base decreased 2% to 52,230 at December 31 from 53,300 at September 30 and was down 9% from 57,400 at December 31 last year.

Turning to our cost and operating expenses. Gross profit margin of 75.8% increased from 71.4% in the fourth quarter last year due to lower logistics costs and an increase in administrative fee revenue.

For the full year, our gross profit margin of 72.6% declined from 74.1% in 2019.

Commissions expense as a percent of total revenue for the fourth quarter increased to 41.4% from 40.9% in the prior year quarter due to higher incentive costs, partly offset by the increase in administrative fee revenue.

On a full year basis, commissions expense was 42.2% of total revenue, down from 45.8% for 2019.

Selling, general and administrative expenses for the quarter decreased 36% to \$4.4 million from \$6.9 million a year ago. For the full year, SG&A was \$18.2 million, a decrease of 33% from \$27.2 million for 2019.

The decrease in our SG&A from the prior year quarter and for the full year reflects the cost reduction measures we implemented in the second half of 2019, resulting in lower employee-related expenses, professional fees and event costs as we did not hold any major events in 2020 due to the COVID-19 pandemic.

We maintained positive operating income for the quarter, which totaled \$1.3 million compared to an operating loss of \$3.2 million in the fourth quarter last year, which included a goodwill impairment charge of \$1.8 million.

For the full year 2020, operating income was \$669,000 compared to an operating loss of \$7 million in 2019, which also included the goodwill impairment charge.

We recorded an income tax provision of \$737,000 for the quarter compared to an income tax benefit of \$106,000 recognized in the fourth quarter last year.

For the full year, we recognized the income tax provision of \$647,000 compared to \$14,000 for 2019. Net income for the fourth quarter totaled \$747,000 or \$0.07 per diluted share compared to a net loss of \$2.8 million or \$0.27 per diluted share in the fourth quarter of 2019.

For the full year, net income totaled \$843,000 or \$0.07 per diluted share compared to a net loss of \$5.6 million or \$0.52 per diluted share in 2019.

Now I'll turn to our balance sheet and cash flow. Total cash and cash equivalents were \$92.4 million at December 31, up from \$90.8 million at September 30. Total cash and cash equivalents decreased by \$3.7 million from \$96 million at December 31, 2019, primarily due to the dividends paid in 2020, offset by our net cash provided by operations during the year.

Net cash provided by operating activities was \$3.4 million for the fourth quarter compared to \$110,000 in the fourth quarter last year. For the full year, net cash provided by operating activities was \$1.9 million compared to net cash used in operating activities of \$18.6 million in 2019.

As returning capital to our stockholders remains a top priority, I am pleased to announce that our strong liquidity position has enabled us to maintain our quarterly dividend.

For the full year of 2020, we paid out \$9.1 million in dividends. Earlier this week, on February 8, our Board of Directors declared a quarterly cash dividend of \$0.20 per share, which will be payable on March 5 to stockholders of record as of February 23.

Our strong balance sheet, working capital management and conservative capital allocation philosophy enables us to continue to support our members, revitalize growth in our business and drive value for our stockholders. We are cautiously optimistic that we can build on our fourth quarter momentum into 2021.

As we look ahead, we remain committed to emerging from this crisis well positioned to take advantage of any improvements in our operating environment as the economy steadily recovers.

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

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#### **Operator**

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

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