

October 25, 2016



## Natural Health Trends Reports Third Quarter 2016 Financial Results and Declares Special Cash Dividend of \$0.35 per Share

- *Record operating income increased 3% year-over-year to \$15.2 million*
- *Active Members<sup>1</sup> increased 30% year-over-year to 122,900*
- *Increased quarterly dividend 14% to \$0.08 per share*
- *Declared special dividend of \$0.35 per share*

LOS ANGELES, Oct. 25, 2016 (GLOBE NEWSWIRE) -- Natural Health Trends Corp. (NASDAQ:NHTC), a leading direct-selling and e-commerce company that markets premium quality personal care, wellness and “quality of life” products under the NHT Global brand, today announced its financial results for the quarter ended September 30, 2016.

### Third Quarter 2016 Financial Highlights

- Total revenue decreased 13% to \$70.7 million, compared to \$80.8 million in the third quarter of 2015.
  - Revenue from the Company’s Hong Kong operations, which represented 93% of total revenue, decreased 13% to \$65.9 million, compared to \$75.9 million in the third quarter of 2015.
  - Revenue outside of Hong Kong decreased 2% to \$4.8 million, compared to \$4.9 million in the third quarter of 2015.
- Operating income increased 3% to \$15.2 million, compared to \$14.8 million in the third quarter of 2015.
- An additional income tax provision of \$2.6 million was recognized in the third quarter of 2016 for the expected partial repatriation of overseas profits, resulting in an overall effective tax rate of 18%.
- Net income was \$12.6 million, or \$1.12 per diluted share, compared to \$14.5 million, or \$1.18 per diluted share, in the third quarter of 2015.
- The number of Active Members<sup>1</sup> decreased 3% to 122,900 at September 30, 2016, compared to 126,440 at June 30, 2016, and increased 30% compared to 94,700 at

September 30, 2015.

<sup>1</sup> *Natural Health Trends defines Active Members as those that have placed at least one product order with the Company during the preceding twelve month period.*

## **Year-to-Date 2016 Financial Highlights**

- Total revenue increased 18% to \$225.4 million, compared to \$191.2 million in the first nine months of 2015.
- Operating income increased 30% to \$44.1 million, compared to \$34.0 million in the first nine months of 2015.
- An additional income tax provision of \$7.3 million was recognized in the first nine months of 2016 for the expected partial repatriation of overseas profits, resulting in an overall effective tax rate of 18%.
- Net income was \$36.0 million, or \$3.14 per diluted share, compared to \$33.5 million, or \$2.70 per diluted share, in the first nine months of 2015.

## **Management Commentary**

“We had a challenging third quarter characterized by various adverse factors contributing to a 13% year-over-year decline in our total revenue,” commented Chris Sharnng, President of Natural Health Trends Corp. “In addition to a tough year-over-year comparison in the third quarter of 2015 due to a highly successful promotion we ran last year during an otherwise seasonally slower quarter, we encountered currency depreciation of the Chinese yuan by 6% against the Hong Kong dollar. This effectively increases the price of our products for our members residing in mainland China. That said, we believe the G20 Summit, which was hosted in Hangzhou, one of our top performing markets, was the significant driver behind the quarter’s decline in revenue. To prepare for the high profile event, the Chinese government implemented special measures such as temporarily relocating city residents, emptying entire districts, blocking urban traffic and shutting down businesses from July through early September. As a result, our local members’ abilities to organize any activity in the Hangzhou metropolitan area were hampered.”

Mr. Sharnng further commented, “Despite these factors, we were pleased to have increased our revenues for the first nine months of 2016 by 18% over last year as well as achieve record operating profit for the quarter of \$15.2 million, up 3% over last year. To reinvigorate growth in our affected markets, we have developed a strategic plan which includes leader training and motivation, expansion by both geography and product, and technological advancements to support enhanced member communication and productivity. We are working hard to build sustainable, long-term growth and we will strive to get there through execution on our strategic initiatives while simultaneously returning excess cash to our valued stockholders.”

## **Balance Sheet and Cash Flow**

- Net cash provided by operating activities in the third quarter of 2016 was \$5.9 million, compared to \$25.7 million in the third quarter of 2015. For the first nine months of 2016, net cash provided by operating activities was \$36.3 million, compared to \$65.2 million in the first nine months of 2015.
- On October 23, 2016, the Company’s Board of Directors declared a quarterly cash

dividend of \$0.08 per share on outstanding common stock, which represents a 14% increase over the prior quarter dividend, and a special cash dividend of \$0.35 per share on outstanding common stock. The dividends will be payable on November 25, 2016 to stockholders of record as of November 15, 2016.

- During the nine months ended September 30, 2016, the Company repurchased \$23.7 million of its common stock under its existing \$70.0 million stock repurchase program. At September 30, 2016, approximately \$32.0 million remained available for repurchases, inclusive of related estimated income tax.

### **Third Quarter 2016 Financial Results Conference Call**

Management will host a conference call to discuss the third quarter 2016 financial results today, Tuesday, October 25, 2016 at 11:30 a.m. Eastern Time. The conference call details are as follows:

**Date:** Tuesday, October 25, 2016  
**Time:** 11:30 a.m. Eastern Time / 8:30 a.m. Pacific Time  
**Dial-in:** 1-877-407-0789 (Domestic)  
1-201-689-8562 (International)  
**Conference ID:** 13646039  
**Webcast:** <http://public.viavid.com/index.php?id=121213>

For those unable to participate during the live broadcast, a replay of the call will also be available from 2:30 p.m. Eastern Time on October 25, 2016 through 11:59 p.m. Eastern Time on November 8, 2016 by dialing 1-844-512-2921 (domestic) and 1-412-317-6671 (international) and referencing the replay pin number: 13646039.

### **About Natural Health Trends Corp.**

Natural Health Trends Corp. (NASDAQ:NHTC) is an international direct-selling and e-commerce company operating through its subsidiaries throughout Asia, North America, and Europe. The Company markets premium quality personal care products under the NHT Global brand. Additional information can be found on the Company's website at [www.naturalhealthtrends.com](http://www.naturalhealthtrends.com).

### **Forward-Looking Statements**

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 -- Forward-looking statements in this press release do not constitute guarantees of future performance. Such forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those anticipated. Such risks and uncertainties include the risks and uncertainties detailed under the caption "Risk Factors" in Natural Health Trends Corp.'s Annual Report on Form 10-K filed on March 4, 2016 with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking information contained in this press release or with respect to the announcements described herein.

**NATURAL HEALTH TRENDS CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
**(In thousands)**

|   | September 30, 2016<br>(Unaudited) | December 31, 2015 |
|---|-----------------------------------|-------------------|
| <b>ASSETS</b>                                     |                                   |                   |
| Current assets:                                   |                                   |                   |
| Cash and cash equivalents                         | \$ 114,500                        | \$ 104,914        |
| Accounts receivable                               | 98                                | 57                |
| Inventories, net                                  | 14,842                            | 10,455            |
| Other current assets                              | 3,540                             | 2,286             |
| <b>Total current assets</b>                       | <b>132,980</b>                    | <b>117,712</b>    |
| Property and equipment, net                       | 1,297                             | 894               |
| Goodwill  | 1,764                             | 1,764             |
| Restricted cash                                   | 3,090                             | 3,166             |
| Other assets                                      | 723                               | 616               |
| <b>Total assets</b>                               | <b>\$ 139,854</b>                 | <b>\$ 124,152</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>       |                                   |                   |
| Current liabilities:                              |                                   |                   |
| Accounts payable                                  | \$ 3,114                          | \$ 2,862          |
| Income taxes payable                              | 655                               | 379               |
| Accrued commissions                               | 18,620                            | 19,634            |
| Other accrued expenses                            | 18,443                            | 16,703            |
| Deferred revenue                                  | 4,236                             | 4,011             |
| Deferred tax liability                            | 60                                | 60                |
| Amounts held in eWallets                          | 19,510                            | 16,414            |
| Other current liabilities                         | 1,543                             | 1,510             |
| <b>Total current liabilities</b>                  | <b>66,181</b>                     | <b>61,573</b>     |
| Long-term incentive                               | 4,945                             | 5,770             |
| <b>Total liabilities</b>                          | <b>71,126</b>                     | <b>67,343</b>     |
| Commitments and contingencies                     |                                   |                   |
| Stockholders' equity:                             |                                   |                   |
| Preferred stock                                   | —                                 | —                 |
| Common stock                                      | 13                                | 13                |
| Additional paid-in capital                        | 86,564                            | 85,963            |
| Retained earnings (accumulated deficit)           | 24,342                            | (9,647 )          |
| Accumulated other comprehensive loss              | (302 )                            | (101 )            |
| Treasury stock, at cost                           | (41,889 )                         | (19,419 )         |
| <b>Total stockholders' equity</b>                 | <b>68,728</b>                     | <b>56,809</b>     |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 139,854</b>                 | <b>\$ 124,152</b> |

**NATURAL HEALTH TRENDS CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(In thousands, except per share data)

|           | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|-----------|-------------------------------------|-----------|------------------------------------|------------|
|           | 2016                                | 2015      | 2016                               | 2015       |
| Net sales | \$ 70,679                           | \$ 80,779 | \$ 225,416                         | \$ 191,204 |

|   |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| Cost of sales   | 13,627           | 16,001           | 42,966           | 39,025           |
| Gross profit  | 57,052           | 64,778           | 182,450          | 152,179          |
| Operating expenses:                                   |                  |                  |                  |                  |
| Commissions expense                                   | 30,578           | 40,036           | 103,547          | 93,443           |
| Selling, general and administrative expenses          | 11,170           | 9,867            | 34,505           | 24,571           |
| Depreciation and amortization                         | 96               | 72               | 276              | 181              |
| Total operating expenses                              | 41,844           | 49,975           | 138,328          | 118,195          |
| Income from operations                                | 15,208           | 14,803           | 44,122           | 33,984           |
| Other income (expense), net                           | 48               | (135 )           | 40               | (112 )           |
| Income before income taxes                            | 15,256           | 14,668           | 44,162           | 33,872           |
| Income tax provision                                  | 2,699            | 137              | 8,124            | 330              |
| Net income  | <u>\$ 12,557</u> | <u>\$ 14,531</u> | <u>\$ 36,038</u> | <u>\$ 33,542</u> |
| Income per common share:                              |                  |                  |                  |                  |
| Basic   | <u>\$ 1.12</u>   | <u>\$ 1.19</u>   | <u>\$ 3.15</u>   | <u>\$ 2.71</u>   |
| Diluted   | <u>\$ 1.12</u>   | <u>\$ 1.18</u>   | <u>\$ 3.14</u>   | <u>\$ 2.70</u>   |
| Weighted-average number of common shares outstanding: |                  |                  |                  |                  |
| Basic   | <u>11,209</u>    | <u>12,239</u>    | <u>11,437</u>    | <u>12,364</u>    |
| Diluted   | <u>11,232</u>    | <u>12,284</u>    | <u>11,463</u>    | <u>12,439</u>    |
| Cash dividends declared per common share              | <u>\$ 0.07</u>   | <u>\$ 0.04</u>   | <u>\$ 0.18</u>   | <u>\$ 0.09</u>   |

**NATURAL HEALTH TRENDS CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In thousands)

|   | Nine Months Ended September<br>30, |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                    |           |
| Net income  | \$ 36,038                          | \$ 33,542 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 276                                | 181       |
| Stock-based compensation  | 94                                 | 56        |
| Cumulative translation adjustment realized in net income                          | 132                                | (82 )     |
| Changes in assets and liabilities:  |                                    |           |
| Accounts receivable   | (36 )                              | (217 )    |
| Inventories, net  | (4,382 )                           | (2,904 )  |
| Other current assets  | (1,208 )                           | (736 )    |
| Other assets  | (91 )                              | (264 )    |
| Accounts payable  | 252                                | 2,140     |
| Income taxes payable  | 278                                | 190       |
| Accrued commissions   | (1,045 )                           | 11,832    |
| Other accrued expenses  | 3,459                              | 8,397     |
| Deferred revenue  | 222                                | 1,844     |
| Amounts held in eWallets  | 3,098                              | 11,354    |
| Other current liabilities   | 26                                 | 93        |
| Long-term incentive   | (825 )                             | (229 )    |

|   |                   |                  |
|---|-------------------|------------------|
| Net cash provided by operating activities                       | 36,288            | 65,197           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                    |                   |                  |
| Purchases of property and equipment, net                        | (679 )            | (645 )           |
| Increase in restricted cash                                     | —                 | (3,028 )         |
| Net cash used in investing activities                           | (679 )            | (3,673 )         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                    |                   |                  |
| Proceeds from exercise of warrants                              | —                 | 309              |
| Repurchase of common stock                                      | (23,704 )         | (11,079 )        |
| Dividends paid  | (2,049 )          | (1,111 )         |
| Net cash used in financing activities                           | (25,753 )         | (11,881 )        |
| Effect of exchange rates on cash and cash equivalents           | (270 )            | 106              |
| Net increase in cash and cash equivalents                       | 9,586             | 49,749           |
| CASH AND CASH EQUIVALENTS, beginning of period                  | 104,914           | 44,816           |
| CASH AND CASH EQUIVALENTS, end of period                        | <u>\$ 114,500</u> | <u>\$ 94,565</u> |
| <b>SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:</b> |                   |                  |
| Cash paid for income taxes, net of refunds                      | \$ 7,994          | \$ 152           |
| Issuance of treasury stock                                      | \$ 1,741          | \$ 666           |

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Source: Natural Health Trends Corp.