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NHTC - Q3 2019 Natural Health Trends Corp Earnings Call

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CONFERENCE CALL PARTICIPANTS

Chris Sharng - CEO

Timothy Davidson - CFO

PRESENTATION

Operator

Greetings. Welcome to Natural Health Trends Corp. Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Andy Greenbaum with Addo Investor Relations. Thank you. You may begin.

Unidentified Participant

Thank you, and welcome to Natural Health Trends third quarter 2019 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. 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 Sharng - CEO

Thank you, Andrew, and thanks to everyone for joining us. With me today is Scott Davidson, our Senior Vice President and Chief Financial Officer. I'll start by discussing our third quarter results, and then hand the call over to Scott to review our financials in greater detail.

Total third quarter revenue of \$17 million declined 64% compared to the third quarter of 2018 as the business environment in China presented broad challenges for health products companies due to the 100-day campaign and its ongoing aftermath. In addition, protest in Hong Kong post new complications during the quarter. As a result, we had to suspend company-sponsored meetings in Hong Kong as current conditions are not conducive to hosting visitors from Mainland China.

Despite a difficult operating environment in China and Hong Kong, we are pleased with our leaders' abilities to adapt and perform under these circumstances. Due to the Hong Kong protest, we changed the timing of our traditional third quarter Hong Kong event to October and held it in Macau. We attracted 3,000 attendees for a weekend full with product demonstrations, keynote speakers, motivation and training.

The new products we introduced included an electric uterus and a new version of our air purifier, which will be sourced in China as part of our efforts to reduce our exposure to the ongoing trade disputes.

Recession to the Macau event among our guests was very positive. Our fourth quarter order volume trends are improving following this major event. It also paves the way for us and the leaders to plan for more activities, including a Fly High training event in Malaysia in the fourth quarter and back to Hong Kong early next year.



Additionally, we unveiled our new and improved star review of products during the quarter, with a reregistration process underway in all key markets. This enhanced formula will be supported by an existing product manufacturing partner that can better educate members on the vast benefits behind the product to support cellular health.

On the heels of this development, we conducted a renewal manufacturing tour in Minneapolis in August to showcase the new formula and provided exclusive product training for members who qualify to attend. As part of the star renewal reregistration process in America, we held a launch event in Lima Peru to promote awareness and generate orders. Further registrations in Peru for other NHT Global products are expected to be completed by the end of the year that should help us to maintain our momentum.

Lastly, in light of the current business environment, we are implementing cost reduction measures to focus resources on our members and markets. We expect to realize an annualized \$5.7 million savings by the first quarter of 2020.

In summary, while we continue to face broader macro challenges in both China and Hong Kong, we are cautiously optimistic that our persistent execution will help reinvigorate growth as the situation stabilizes. In fact, our Board of Directors demonstrated their confidence in our business by declaring a special cash dividend of \$0.40 a share. We will also continue to evaluate opportunities for additional share repurchases given our remaining authorization for \$22.4 million.

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

Timothy Davidson - CFO

Thank you, Chris. Total revenue for the third quarter of \$17 million declined 64% compared to \$47 million in the third quarter of 2018. The year-over-year decline was primarily due to the broad challenges Chris spoke to, which are impacting the business environment in China as well as unrest in Hong Kong.

Our active member base decreased 13% to 68,000 at September 30 from 78,000 at June 30 and was down 30% from 97,000 at September 30 last year.

Turning to our cost and operating expenses. Gross profit margin of 74.3% declined from 78.9% in the third quarter of last year primarily as a result of higher logistics costs, and was further impacted by a nonrecurring upsell charge of \$550,000. Commissions expense as a percent of total revenue of 43.2% decreased from 46.8% in the third quarter last year due to cost savings on incentive trips that occurred during the quarter.

Selling, general and administrative expenses for the quarter decreased 13% to \$6.4 million from \$7.3 million a year ago due to the shift of (inaudible) major event into October compared to August last year. As a result, operating loss for the quarter was \$1.1 million compared to operating income of \$7.8 million in the third quarter last year.

We recorded an income tax provision of \$502,000 for the quarter compared to \$467,000 in the third quarter last year. Net loss for the quarter totaled \$1.2 million or a loss of \$0.12 per diluted share compared to net income of \$7.6 million or \$0.67 per diluted share in the third quarter of 2018. Net cash used in operating activities was \$3.7 million during the quarter compared to net cash provided by operating activities of \$8.8 million in the third quarter of 2018. The total cash and cash equivalents were \$101.1 million at September 30, down slightly from \$108.1 million at June 30.

during the quarter, we repurchased just over 383,000 shares of our common stock at an average price of \$7.51 for a total of \$2.9 million. As of September 30, \$22.4 million of the previously approved stock repurchase program remained available for future purchases.

Lastly, on October 29, our Board of Directors declared a special cash dividend of \$0.40 per share on outstanding common stock. The dividend will be payable on November 29 to stockholders of record as of November 19. As always, we will continue to evaluate our capital allocation strategy going forward to deliver increased value to our shareholders.

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



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Operator

Thank you for joining today's call. It has now concluded. You may now disconnect your lines at this time. We thank for your participation, and have a wonderful day.

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