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NHTC.OQ - Q2 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, and welcome to the Natural Health Trends Corporation Second Quarter 2021 Earnings Conference Call. (Operator Instructions). Please note that this conference is being recorded.

I will now turn the conference over to our host, 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 Second Quarter 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 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 in today's financial results press release, which was issued at approximately 9 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 second quarter 2021 financial results. With me today is Scott Davidson our Senior Vice President and Chief Financial Officer. We were pleased with our second quarter financial performance, which reflected sequential growth despite ongoing macroeconomic challenges. We generated revenue of \$16.2 million, an increase of 20% compared to \$13.5 million in the first quarter of 2021, and a decrease of 2% compared to \$16.4 million in the second quarter of 2020. Our performance compared to the prior quarter was primarily driven by our first major in-person event of the year, which was held in Macau, along with multiple other in-person Fly High training events and roadshows, which are helping to rejuvenate momentum in our core markets.

Partially offsetting this strength was sporadic coronavirus outbreaks, hampering medium turnout, along with global supply chain constraints, which have lengthened lead times for some of our products. Compared to the second quarter of 2020, revenue decreased 2%, partially offsetting this decline where improvements in certain of our system markets with net sales increasing 27% year-over-year outside of our Hong Kong/China market. Malaysia, Japan, Korea, Singapore, [CIS], North America, India, Taiwan, Peru and Europe all experienced improved order volume versus a year ago.

Similar to the prior year period, we are still navigating through the complexities associated with the COVID-19 pandemic in China and the pockets of outbreaks that continue to occur. This had led to draconian measures implemented by the Chinese government to control the virus, including the required closure of some businesses along with restrictions on public gatherings and travel over the course of the past year. Aside from these challenges, we reported our fifth consecutive quarter of positive operating income and net income in addition to our third consecutive quarter of

positive cash flow generation. Importantly, despite a modest year-over-year reduction in revenue, our total second quarter order volume was still up in the mid-teens range. As a reminder, our order volume in the second quarter of 2020 included several product promotions, which we have since curtailed significantly in an effort to preserve our margins.

As I highlighted earlier, a strong contributor to our order volume in the second quarter of 2021 was our first major in-person event held in Macau in early June. However, while this experience was intended for 1,500 participants, clusters of COVID-19 virus outbreaks in nearby cities reduced attendance by more than half. As such, we believe our order volume would have been even stronger had we been able to host the event to a much broader audience as initially planned. In addition to Macau, we held in April in-person Fly High training in China, which attracted nearly 700 attendees and was predominantly focused on business training. In the months to follow, our leaders continue to sponsor and organize a series of marketing activities, both in person and online, including product and business training roadshows.

In regard to new products, we launched our Ultra B Complex supplement in North America in May and in Hong Kong in June, its proprietary time release formula with a high concentration of all-age B vitamins helped contribute solid order volume during the quarter. We also released colostrum, chewable tablets, in India in June, which has been well received. We expect this new product will help drive sales momentum as the Indian market continued its steady recovery in the quarters to come.

In summary, we were pleased with our second quarter financial performance to achieve sequential top line growth despite ongoing macroeconomic challenges. Our order volume improved both year-over-year and quarter-over-quarter, supported by our efforts to maintain momentum through in-person events, product roadshows and exciting new products. Further, our efforts to preserve our margins resulted in continued bottom line profitability for the fifth consecutive quarter.

As larger restrictions pertaining to the COVID-19 pandemic continue to ease, we believe this will be a positive development for our business. I'd like to sincerely thank all of our leaders for their ongoing support of and commitment to NHT Global. I'd also like to thank all of our loyal members, preferred customers, employees and stockholders for their continued dedication to our company. Stay well, and we look forward to reconnecting with you on our third quarter earnings call in November.

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 second quarter was \$16.2 million, an increase of 20% compared to \$13.5 million in the first quarter of 2021 and a decrease of 2% compared to \$16.4 million in the second quarter of 2020. As Chris highlighted, the sequential quarter increase in revenue was primarily due to the ongoing gradual resumption of in-person events and member activities, including Fly High training, roadshows and most notably, our first major in-person event in Macau, which contributed to double-digit growth in order volume compared to the prior quarter.

While we remain cautiously optimistic the macroeconomic environment and operating conditions will improve, we anticipate our financial results may continue to be impacted by the ongoing effects of a pandemic, as cities work to cautiously reopen safely amid continuing outbreaks and spikes in COVID-19 cases. Our active member base decreased 5% to 46,860 at June 30 from 49,420 at March 31 and was down 14% from 54,370 at June 30 of last year.

Turning to our cost and operating expenses. Gross profit margin of 75.7% increased from 70.6% in the second quarter last year due to lower logistics cost, fewer product promotions and an increase in administrative fee revenue. Commissions expense as a percent of total revenue for the second quarter decreased to 42.9% from 43.4% in the prior year quarter. Excluding the increase in administrative fee revenue, commissions expense would have been relatively consistent with the prior year period.

Selling, general and administrative expenses for the quarter were \$4.9 million compared to \$4.3 million a year ago. The increase in our SG&A from the prior year quarter reflects the higher event costs as we held our first major event since the coronavirus outbreak in June 2021. As a result, operating income for the quarter was \$385,000 compared to \$183,000 in the second quarter last year. We recorded an income tax provision of

\$97,000 for the quarter compared to \$274,000 recognized in the second quarter last year. Net income for the second quarter totaled \$229,000 or \$0.02 per diluted share compared to \$34,000 or breakeven per diluted share in the second quarter of 2020.

Now I'll turn to our balance sheet and cash flow. Total cash and cash equivalents were \$88.1 million at June 30, down slightly from \$90.2 million at March 31. Net cash provided by operating activities was \$134,000 in the second quarter compared to net cash used in operating activities of \$28,000 in the second quarter last year. As returning capital to our stockholders remains a top priority, I am pleased to announce that on August 2, our Board of Directors declared another quarterly cash dividend of \$0.20 per share, which will be payable on August 27 to stockholders of record as of August 17.

In conclusion, I am very pleased with our second quarter financial results as we continue to navigate the complex operating environment. We delivered solid growth in order volume from both the prior quarter and prior year period and generated positive cash flow from operations for the third consecutive quarter. Looking ahead, we remain committed to maintaining our strong balance sheet, effectively managing working capital and diligently managing expenses to enable us to continue to support our loyal members, revitalize growth in our business and create value for our stockholders. That completes our prepared remarks.

I will now turn the call back over to the operator.

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#### Operator

And with that, that concludes today's conference. All parties may now disconnect. Thank you, and have a great day.

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