

ICTV
Rich Ransom
ICTV Brands
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4:30 pm ET

Operator: Good day, ladies and gentlemen, and welcome to the ICTV Brands Third Quarter 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. If anyone requires assistance during today's call, please press * then 0 on your touchtone phone. As a reminder, today's call is being recorded.

I would now like to turn the conference over to your host, Ryan LeBon. Sir, you may begin.

Ryan LeBon: Thank you very much and welcome to our conference call to discuss ICTV Brands financial results for the third quarter of 2014. On the call today, we have Kelvin Claney, our Chairman and Chief Executive Officer; Rich Ransom, our President; and myself, our Chief Financial Officer.

Rich will review the Company's business operations and product initiatives. I will review the Company's financials, and Kevin will review the Company's future growth strategies. Immediately thereafter, we will take questions from our call participants.

I'd like to take a quick moment to read the Safe Harbor Statement.

During the course of the conference call, we will make certain forward-looking statements. All statements that address expectations, opinions, or predictions about the future are forward-looking statements. Although they reflect our current expectations and are based on our best view of the industry and of our business as we see them today, they are not guarantees

of future performance. The statements involve a number of risks and assumptions and since those elements can change, we would ask that you interpret them in that light. We urge you to review ICTV's Form 10-K and other SEC filings for a discussion of the principal risks and uncertainties that affect our performance and other factors that could cause our actual results to differ materially.

With that, I would like to turn the call over to Rich Ransom.

Rich Ransom:

Ryan, thank you very much. Good afternoon and thank you for joining us today. We are so excited to have the opportunity today to give you, our valued shareholders, an update on the progress we've continued to make.

During the third quarter, we legally changed our corporate name to ICTV Brands. I encourage you to go to our new corporate website, www.ictvbrands.com. Other updates and third quarter highlights that we will further discuss on this call include positive cash flow from operating activities of \$89,000.00, adjusted EBITDA of \$162,000.00 loss, excluding stock-based compensation; operating loss of \$528,000.00 which includes \$537,000.00 of non-cash, stock-based compensation expense, product development, and production expenditures associated with new product expansion, and retail marketing initiatives; record international third party distributor sales of \$4.8 million year-to-date surpassing all of 2013; DermaWand's continued progress on a next-generation device, increasing international expansion and availability in U.S. retail; Derma Brilliance clinical study and marketing efforts completed for November launch; DermaWand declared for rollout by Latino Media Services; and DermaWand has been made available at nearly 4,000 Rite Aid locations.

2014 has been a year of investment. We're excited about the platform we had built to market and distribute products in the health, wellness, and

beauty sector. We are well positioned for growth in 2015. We have been very busy over the past several weeks with expanding the international footprint of DermaWand, launching into U.S. retail with Rite Aid, and fine-tuning its next-generation unit.

New products Jidue, CoralActives, and Derma Brilliance have all launched. We continue to focus on our portfolio of products in our pipeline of opportunities on devices with recurring revenue of continuity models. Our pipeline of new opportunities continues to be robust. In fact, we are currently in the clinical trial phase on two new beauty devices we are branding the Juvion Eye Pen and the Juvion Face Wand. We had mentioned in a previous call that Kelvin and I had gone to China to source these products and I'm pleased to report we had made great progress on preparing for our first half of 2015 launch for both of these devices.

In complement to our existing multichannel distribution strategy, ICTV has been testing additional marketing strategies centered upon social media with celebrities and endorsers. The goal of such strategy is to increase awareness and lower our customer acquisition costs for various ICTV products. We look forward to a return to growth over the next 12 months and achieving our target of becoming \$100-million-plus revenue company in the next two to three years.

Now, on to the business and numbers. Ryan LeBon, our Chief Financial Officer, will detail our financial performance and earnings for the three and nine months ended September 30th, 2014.

Ryan LeBon: Thanks, Rich. We're pleased to report our third quarter of 2014 results.

Revenues for the third quarter ended September 30th, 2014 were \$6 million, compared to \$8.3 million for the third quarter of 2013.

International revenue to third party distributors grew by 175% from \$655,000.00 to \$1.8 million. Gross profit margin of 68% was realized, slightly down from 74% a year earlier, attributed to the higher mix of international sales to total revenue.

Operating loss in the third quarter was \$528,000.00 compared to operating income of \$110,000.00 in the third quarter of 2013. Of note, operating loss for the third quarter of 2014 included non-cash, stock-based compensation expenses, as well as incremental investment including research and development, new production, and retail initiatives of \$537,000.00 which represents a \$379,000.00 increase from the third quarter of 2013. These third quarter 2014 expenses were comprised of stock-based compensation expense of \$360,000.00, product development in clinical testing expenditures of \$90,000.00, retail advertising expenditures of \$65,000.00, and new production expenses of \$22,000.00.

Net loss for the third quarter was \$501,000.00, compared to net income of \$101,000.00 in the third quarter of 2013. Resulting EPS is a loss of \$0.02 per share as compared to \$0.00 per share in the comparable quarter a year earlier.

Adjusted earnings before interest, taxes, depreciation, and amortization adjusted EBITDA was a loss of \$162,000.00. Revenues for the nine months ended September 30th, 2014 were \$23.7 million, compared to \$31.2 million for the nine months ended September 30th, 2013. International revenue to third-party distributors grew by 66% from \$2.9 million to \$4.8 million. Gross profit margin of 71% was realized in the first nine months of 2014, as compared to 72% a year earlier.

Operating loss for the nine months ended September 30th, 2014 was \$873,000.00, compared to operating income of \$2 million in the nine

months ended September 30th, 2013. Of note, operating loss for the nine months ended September 30th, 2014 included non-cash, stock-based comp expenses and incremental investment such as research and development, new production, and retail initiatives of \$1,584,000.00, which represents a \$965,000.00 increase from the prior year comparable period. These 2014 expenses were comprised of stock-based compensation expense of \$950,000.00, product development and clinical testing expenditures of approximately \$315,000.00, retail advertising expenditures of \$131,000.00, and new production expenses of \$188,000.00.

Net loss for the nine months ended September 30th, 2014 was \$858,000.00, compared to net income of \$1.8 million in the nine months ended September 30th, 2013. The resulting EPS is a loss of \$0.04 per share, as compared to \$0.08 in the comparable period a year earlier. Adjusted EBITDA was \$86,000.00.

As of September 30th, 2014, the Company had \$1.6 million in cash, compared to \$1.4 million at December 31st, 2013, and reflects continued investment in expenditures on new product acquisition and development. The Company had a working capital of \$3 million at September 30th, 2014, compared to \$2.9 million at December 31st, 2013, which demonstrates our strong short-term liquidity. We have also reached a positive shareholders' equity of \$2.4 million, up from \$2.1 million at December 31st, 2013. In addition, we generated positive cash flows from operations of \$89,000.00 in the nine months ended September 30th, 2014, compared to \$76,000.00 in the prior year comparable period.

Now, I'd like to turn the call back over to Rich Ransom, our President, who will provide some detail and an update on our product initiatives.

Rich Ransom: Thank you very much, Ryan.

Revenues for the three and nine months ended September 30th, 2014 were lower due to our calculated decision to scale back our U.S. DermaWand marketing spend during December months, which is typically a slower response period. One of the main driving factors was a decrease in revenue by the Spanish language version of the DermaWand infomercial. I am pleased to report ICTV has completed a new Spanish language DermaWand infomercial that just began testing this past weekend. We are very confident that this show will perform well as it is the first time that DermaWand is being marketed to the U.S. Hispanic community with a commercial that is 100% shot in Spanish.

Even before the launch of the new show, we are seeing momentum in our Spanish marketing efforts. Sales in October were \$377,000.00 for our original dubbed version compared to \$716,000.00 for the entire third quarter. We plan to aggressively market the new show in November and December and hope to be back to 2013 revenue levels or above for the U.S. Hispanic media efforts in the coming months.

In addition, we did not generate any revenue from live televised home shopping as compared to \$589,000.00 in the prior year. We had hoped to be on ShopHQ with DermaWand in the third quarter but the test was moved to November 29th. We feel this is a really great time to re-launch DermaWand into live television home shopping as it falls on Black Friday weekend here in the U.S.

2014 has been a year of investment in our team, products, and pipeline of products. We continue to invest in production and research and development-related expenditures. In 2014, ICTV completed clinical trials for the launches of Derma Brilliance and CoralActives, as well as a double-blind placebo test in Europe on the DermaWand, with the goal of

opening up the DermaWand to additional markets such as Japan and the UK. Furthermore, we invested in production expenditures for our skin care product, elastin-rp, as well as enhancements to the DermaWand show, including a new short-form spot for the DermaWand campaign and high-definition enhancements to the long-form infomercial.

Additionally, we continue to build the infrastructure to bring our products into traditional retail stores. We incurred retail advertising expenditures consisting of promotional advertisements and numerous product packaging initiatives which were not incurred during the prior year.

I am confident we have the right team and infrastructure in place to continue to build a diverse product portfolio which will position our company for even greater success in the coming years. While our third quarter results reflect seasonality and a strategic decision to reduce media spend in a historically slow-response period, we're confident our investment in new products and sales channels has ICTV positioned to surpass our past successes.

Our flagship product, DermaWand, has continued to make progress on several fronts, including development of its next-generation device, increased international expansion, and commencement of U.S. retail rollout. ICTV's design and development team and its Chinese manufacturing partner have made further design changes to be able to deliver an improved and more cost-effective unit. DermaWand successfully tested for launch into 16 Central and South American countries by Latino Media Services. This international relationship expands DermaWand's availability to an additional 150 million people.

DermaWand has commenced its U.S. retail rollout strategy with Rite Aid and is now available at nearly 4,000 Rite Aid locations. We are in

ongoing discussions with several other retailers and expect additional retail partners to carry DermaWand shortly.

elastin-rp is a brand that introduces an exciting science into skincare, replenishment science. Each elastin-rp product contains the proprietary BioLastin Complex, our unique molecule that helps support collagen and, more importantly, helps provide serious elastin support for your skin. In the first half of 2014, ICTV Brands tested elastin-rp with both a long-form infomercial and a five-minute spot. We began to gain some momentum with this product but, unfortunately, ran into some inventory issues that forced us to stop marketing elastin-rp. I am pleased to report that the inventory issue has been resolved and it is our plan to restart running media on elastin-rp in December. For more information about elastin-rp, please go to www.elastinrp.com.

CoralActives is a new product in the acne treatment and skin cleansing market. CoralActives contains over two times the active acne-fighting ingredient, benzoyl peroxide, of the leading brands while combining the natural anti-inflammatory benefits of sea whip coral extract. CoralActives' website was re-launched in September and is now built to allow customers to enroll into an autoship continuity program. A direct-to-consumer radio campaign began in October.

I am also pleased to announce for the first time today that ICTV Brands has reached an agreement with former U.S. gold medal-winning Olympic star Shawn Johnson to be the spokeswoman for CoralActives. Shawn will be doing a new radio spot that will air in January. We will also be able to use her likeness on our website and in our social media campaigns for CoralActives. For more information about Coral Actives, please go to www.coralactives.com.

Jidue is a facial massager that works through 18 uniquely-positioned pulsating nodes, which stimulates the four key pressure points around the eye to increase facial blood circulation and lymph flow. It is designed to help alleviate eye fatigue, pain, and stress. In September, we began testing a two-minute spot for Jidue in the United States and Canada. To date, we have run approximately \$30,000.00 in media and are very encouraged by the response.

At the Electronic Retailing Association's D2C convention in Las Vegas in September, we presented Jidue to our network of international distributors and the response was very favorable. In fact, we have already received our first test order from our Italian partner, Shop Television. We have also begun our own clinical trial in Jidue which we hope will help us make stronger claims in future infomercials we plan to shoot. For more information about Jidue, please visit www.jidue.com.

Derma Brilliance is a cosmetic system in the growing skin-polishing sector of the skincare device market. Derma Brilliance constitutes a razor/razor blade continuity model led by a handheld rechargeable device and optimized by consumable micronized diamonds and garnets skin cream formula, both of which are patented. After strong clinical performance results, we just started testing this weekend a long-form infomercial in the United States. For more information about Derma Brilliance, please visit www.dermabrilliance.com.

Now, I'd like to turn the call over to Kelvin Claney, our Chairman and Chief Executive Officer, who will provide some detail on our new production and future growth strategies.

Kelvin Claney: Thank you, Rich. Good afternoon. I'd like to thank you all for joining us today. It's very exciting to me as founder of the company to see so many

of these initiatives [with the gains of] long ago now coming to fruition. Let me take a few minutes to update you on the production projects I'm currently overseeing.

For our DermaWand brand, we just launched a brand new Spanish language infomercial for the U.S. Hispanic market. This is the first time DermaWand has been marketed with 100% Spanish language creative and not only are we confident this production will help us reboot our U.S. Hispanic campaign but even more importantly, it will be a great support to our Mexican distributor, ANOVA, and our recently announced relationship with Latino Media Services.

As I mentioned on our last quarter's call, we worked over the summer on translating our DermaWand show into French to run in Quebec, Canada. I am pleased to report that this initiative has been an absolutely huge success. Since September the 29th, we have generated about \$100,000.00 on revenue at a media efficiency ratio of over 5.5:1. We are currently converting two-minute and five-minute DermaWand spots into French so that we could scale our media presence in Quebec. I'm also beginning the creative process for two brand-new two-minute and five-minute spots for DermaWand. Our hope is to have these shows ready for the first quarter of 2015. We feel these short-form spots are very important to support our retail initiatives as we move through 2015. As we reported recently, our first shipment has hit the shelves in Rite Aid and we are continuing to explore opportunities with other major retailers, and I'm confident that DermaWand's retail footprint will expand as we enter into 2015.

Moving on to Derma Brilliance, Derma Brilliance is uniquely positioned to become a major product in the growing skin-polishing sector of the skincare device market, not just for mature women but also for younger

women and men requiring a fresher, brighter look. Derma Brilliance constitutes a razor/razor blade continuity model led by handheld rechargeable device and optimized by the resurfacing cream that contains micronized diamonds and garnets. Both the device and resurfacing cream are patented. We're very excited to have the infomercial running and the website completed. We're just shipping out our first master to one of our overseas customers to begin testing overseas with the DermaWand infomercial in the next two weeks.

The CoralActives brand was launched by radio in October. We're very excited about having Shawn Johnson as our spokeswoman. We've announced last week that Shawn was selected as one of the contestants on the upcoming season of Celebrity Apprentice, so the timing for Shawn teaming up with CoralActives could not be better. Shawn will cut the CoralActives radio spot the first week in December and we plan to begin airing her version of the commercial in January. We're also in the process of creating a two-minute spot for CoralActives. This spot should be completed in early December and we plan to test it on television before the end of the year.

We really believe we've done something quite unique with our Jidue facial massager. Since launching in early September, our results have consistently improved with each passing week for Jidue. While only marketing in Canada currently, Jidue is driving almost 1,500 visitors per week to our website. We're currently performing a clinical study on Jidue to determine if cosmetic claims about the product can be made. Regardless of the results of the study, we will proceed with this project because we believe that the help that Jidue has proven to give in sleep aid will make this brand a hit. In fact, we've already begun scripting a long-

form Jidue infomercial which will begin filming once the clinical is complete.

Finally, we're making great progress on the two devices that Richard and I went to China earlier this year to source. We're branding these devices Juvion Eye Pen and Juvion Face Wand. Both devices use technology that combines the use of polarity ions, micro-current electro-muscle stimulation, galvanic wave energy, and micro-vibration massage. These devices improve the circulation of blood vessels to increase the composition of collagen and elastin. The Juvion Face Wand is designed for home use while the Juvion Eye Pen can be carried in a bag or a purse and used throughout the day. The devices are designed to be used with the polarized ionic serum which will allow us to build a continuity program around these devices. We began clinical studies and expect to launch both Juvion products in the first half of 2015.

I'm extremely pleased about the progress we have made in 2014 and getting our new brands such as Jidue, Derma Brilliance, and CoralActives launched, and I'm excited to expand on the success we have had with a single product in DermaWand to a portfolio of products and multiple distribution channels and DITV, digital marketing, e-commerce, live television shopping, and retail. ICTV has a goal of becoming a \$100-million-plus revenue company over the next two or three years.

Now, I'd like to turn the call back over to Rich Ransom.

Rich Ransom:

Thank you, Kelvin. ICTV Brands is at a major inflection point having progressed from a one-product DermaWand company to a family of branded products in the health, wellness, and beauty sector. I would like to thank our dedicated team, our incredible partners, and our shareholders.

We look forward to reporting our continued progress over the next few quarters. Operator, we'd like to open the call and take questions.

Operator: Ladies and gentlemen, if you wish to ask a question at this time, please press * then number 1 on your keypad. If your question has been answered or you wish to remove yourself from the question queue, please press the # key. Once again, if you wish to ask a question at this time, please press the * and the number 1 key on your touchtone telephone. We'll pause just a moment to allow questions to queue.

We'll take our first question from Ken Wasserman who is a private investor. Please go ahead.

Ken Wasserman: Hi. Congratulations. I think you guys are really creating a real solid foundation for a terrific company. My question has to do with Jidue which I bought about a month ago and I've been using daily. I'm encouraged by the fact that you see it as a sleep aid and not just as a cosmetic for the eyes. I find it incredibly effective, and I wonder when you're going to start selling it where it becomes available, say, in the Rite Aid or more publicize its availability online.

Rich Ransom: Hey, Ken. Good question. I'll give a little bit of a background on the product and how we obtained it and where we are in the development phase.

We were introduced to this product in May at one of the industry conventions we attend, and the two-minute spot that we said we're running in Canada, we inherited that from the previous people who were marketing the product before we took over the license.

Essentially, we feel that it's prudent to get the clinical testing done before we do a full rollout in the U.S. because of some of the things that are said

in the show. Now, we've gotten something called telecast approval in Canada which makes us feel confident that it's okay to market it in the Canadian market but as far as a U.S. rollout at this point, we really feel it's prudent to wait until we get the full clinical back so that we can make whatever claims. The clinical proves to be statistically significant as we edit and create new spots or infomercials for the product. Once we get to that point, then we'll start taking it to the retailers and live television home shopping, everywhere else that we want to distribute.

Ken Wasserman: When do you think the clinicals will be ready?

Rich Ransom: Well, we should get a preliminary report before Thanksgiving and then that will guide us into whether further testing needs to be done or if we need to just reposition the product to just be a sleep aid.

Ken Wasserman: Okay. Well, thank you and continued good fortune.

Rich Ransom: Thank you, Ken. Thank you for your support.

Ken Wasserman: You're welcome.

Operator: Thank you. We'll take our next question from John Grimley with TJW Capital. Please go ahead.

John Grimley: Hey guys. Congrats on all your progress.

Ryan LeBon: Thanks, John.

John Grimley: I just want to make sure I understand. The international growth is pretty substantial and happening at a pretty fast clip. Clearly, you've got good relationships around the globe. I just wanted to understand the economics if I'm trying to build a model. How should I think about the margin on those international sales versus U.S. sales?

Rich Ransom: Great question, John. The way our international – and we probably need to frame the term a little better. There are really two types of international sales that we do. There are ones we do direct and ones we do through distributors. For instance, right now, we sell in Canada direct. We don't use a distributor. We really count that as more part of our direct response business. As we move into the UK in 2015, that will be the same. It will be direct. The advantages to going direct are we own the customers. We can use those names to remarket. We can build our own continuity program around those customers.

What we've been talking about in terms of our record growth in international is really through our distributor relationships. That's a model where we license for a particular territory our products, be it DermaWand right now or any of the other products in the future, where we'll give all the creative assets that Kelvin and his team have developed to that distributor and now have full rights to market it through direct response, through retail, through live shopping in their territory. The way it works is that they buy the goods from us wholesale and we sell it to them at a discounted wholesale price.

I don't really want to go too specific into the margins because our customers don't exactly know what they are, but I will say that what you do in that model is you take really all the risk off the table for us. It's a sale complete from the factory. They take ownership of the goods when the goods hit the water, and then all the marketing expense, all the call center expense, all the risk of bad debt returns; that all falls on the distributor, not on us. The margin is high. The risk is low. Hopefully, that's specific enough for you.

John Grimley: That's great. Then how many international partners or distribution partners do you have today versus, say, four years ago or five years ago?

Rich Ransom: I think it's changing pretty rapidly right now. I think we're up to about...

John Grimley: Or better yet, how many countries can you sell in today? How many countries are you selling in today versus what you were selling in three or four years ago?

Rich Ransom: Yes. It's probably about three times what it was four years ago. Now, especially with this Latino Media Services arrangement, that has opened up almost all of Spanish-speaking South and Central America to us, at least the countries that do this kind of advertising. I'd say we're rapidly approaching 50 countries now that DermaWand will be sold in. I'd say a few years ago, we were probably closer to 20, 25 countries, so it has really started to ramp up in a big way.

It continues to expand. We actually have a team right now who's just about to come back from an Asian trip. Doug Crouthers, our International Sales Director; and Kelly Willett, our Product Development Director; just were in China and Korea and Indonesia and Singapore, expanding new potential relationships and building on some current ones. Our commitment is to continue to go into any place that we could sell to that we're not currently in.

John Grimley: Thanks. Last question. It seems like you guys dialed back to spending in the current quarter based on all of the products you're launching and the new distribution agreements, the new Latin American or Hispanic-American infomercial. Should we expect to see reacceleration of the revenues or back to more of like a little bit higher base level as we move forward?

Rich Ransom?: Yes, absolutely. Actually, already in October, we started to re-ramp. Actually, towards the end of September, we started to re-ramp our media. One of the things I pointed out in talking about our Hispanic infomercial is even before the launch of this new Spanish language infomercial, we started ramping up the old dubbed versions just to get a baseline before the test as to today's media and where it is. We actually found it – it was starting to perform again. In October, we really started to build that quite rapidly so I would say no doubt, we should start to see as we head into the fourth quarter and the first quarter revenue start to come back to levels that we saw in 2013. Depending on the success of some of these new brands that we've launched, it could be even higher.

John Grimley: Thanks again for being so forthright with giving us the information. We need to understand the business and congrats on your progress.

Ryan LeBon: Thank you very much, John.

Operator: Thank you. Once again, if you do have a question, please press * then 1 on your touchtone phone. We'll pause another moment to allow questions to queue.

We'll take our next question from Henry Andrews, private investor.

Henry Andrews: Yes. This is Henry Andrews. You recently signed an agreement of trade to do with Rite Aid, the DermaWand. I was wondering, why is it projecting margins and revenues from this retail operation?

Ryan LeBon: Thanks, Henry. This is Ryan. That's a great question. I guess the initial answer is it's a little early in the process as we've been on the shelves for only three weeks to date, but we're really optimistic about the relationship moving forward. It's currently being retailed anywhere from \$79.00 to \$89.00 as well as there are additional promotions being run out this week.

We would have a better answer for you next month or two, but we're optimistic with our projections that the margins are profitable and should range anywhere from 20% to 30%.

Henry Andrews: Also, what would the cost of doing the retail agreement started? What was that, if you can tell us that?

Ryan LeBon: Yes. The good part about that is those costs are behind us and all paid for and a lot of that was paying for the PDQ displays and a lot of the different [sliding] fees that come into these relationships, but the costs to date were roughly \$130,000.00.

Henry Andrews: Okay, all right. Thank you very much.

Ryan LeBon: Thank you.

Operator: It appears we have no further questions at this time. Mr. LeBon, do you have any closing remarks?

Ryan LeBon: No. I just would like to thank everybody for joining the call today and we look forward to reporting again next quarter. If you have questions, myself, Kelvin, and Rich are always available. Thank you very much.

Kelvin Claney: Thank you very much for attending.

Rich Ransom: Thank you.

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