

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 first quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will have to conduct a question-and-answer session, and instructions will be given at that time. If anyone requires assistance during the call, please press star then zero on your touchtone telephone. 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 quarter ended March 31, 2015. On the call 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 give updates on the marketing progress of our brands. I will review the company's financials, and Kelvin will review the company's future growth strategies; and 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 this 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. These 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 risk and uncertainty 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:

Thank you very much, Ryan. Good afternoon and thank you for joining us on the call today. We are very excited to have the opportunity to give our dedicated shareholders an update on the progress ICTV Brands has made in the first quarter of 2015. On today's call we are going to update you many of the initiatives we discussed on our March 19th earnings call, as well as some new initiatives. Some of these updates include a DermaWand retail update, progress towards the launch of DermaWand in the United Kingdom and Japan, international third-party distributor test of Jidue, a Jidue live televised home shopping update, the Derma Brilliance launch on the Home Shopping Network, our progress on our elastin-rp brand, updates on CoralActives, and an introduction to our newest product branded Good Planet Super Solution. As we've discussed in our last call, 2014 was a year of investment for ICTV Brands. This investment gave us many creative assets that we have been able to use to begin marketing our newest brands during the first quarter of 2015. These tests included airing of a Derma Brilliance five-minute television spot and a subsequent second quarter launch on the Home Shopping Network; television and radio testing for our CoralActives Acne Skin Care line; a United States media test of a new five-minute and two-minute spot for Jidue, and a test of a new 15-minute international show that is already tested in Italy, Australia and South Africa; and the relaunch of our elastin-rp skin care line in the United States English market, as well as a new test in the Spanish language – our US Hispanic market with a 30-minute elastin infomercial. We've also had several very exciting developments with our flagship

product DermaWand in the first quarter. On March 19th, we relaunched DermaWand on live television home shopping in North America, with a sellout on The Shopping Channel Canada. We have also made great progress with getting DermaWand ready to launch in both the UK and Japan, which I will discuss later on this call. Lastly, the company has made great progress opening some new doors in US and Canadian retail for the DermaWand. I will now turn the call back over to our Chief Financial Officer, Ryan LeBon, who will detail our financial performance and earnings for the quarter ended March 31, 2015.

Ryan LeBon:

Thank you, Rich. During the first quarter of 2015, we allocated considerable resources to our portfolio brands which are still on a rollout phase. Media expenditures were approximately \$3.2 million and \$3.9 million for the three months ended March 31, 2015 and 2014. Accordingly, our net sales decreased to \$8.9 million from \$9.8 million for the three months ended March 31, 2015 and 2014. Further, due to a reduced media spend, sales related to the DermaVital skin care line were \$822,000.00 compared to \$1.2 million in the prior year quarter. Having said that, we are excited with the company resuming live airings on live televised home shopping which resulted in an increase in revenue of \$49,000.00 compared to zero in the prior year. We expect to continue airings on live televised home shopping throughout the remainder of 2015, which Rich will give you an update on later in the call. Additionally, international third-party distributor sales increased to \$1.8 million during Q1 2015, which is up from \$956,000.00 in the prior year quarter. Gross profit percentage was 70% for the three months ended March 31, 2015 compared to approximately 74% during the three months in 2014, which is due to a higher percentage of the company's revenue coming from third-party distributor sales. For the three months ended March 31, 2015, we

generated approximately \$6.2 million in gross profit compared to approximately \$7.2 million for the three months ended March 31, 2014. Total operating expenses decreased to \$6.5 million from \$7.7 million, primarily as a result of the decrease in media spend and volume. Despite these volume-related decreases, the company had a number of significant one-time expenditures in Q1, specifically \$84,000.00 in print media cost related to the company's retail strategy for DermaWand, as well as \$50,000.00 in radio media expenses for our acne skin care line CoralActives. Furthermore, as we continue to build our portfolio of brands, we have a number of products in the early stages of their lifecycle. The company tested new creative and media outlets of which a significant portion of the expense is incurred upfront. Further, for our products with continuity programs, the majority of profit is during the second and third continuity sale after the initial customer acquisition. During Q1 2015, the company's new products, including CoralActives, Derma Brilliance, elastin, Juvion, and Good Planet Super Solution contributed a net revenue of \$223,000.00, a gross profit of \$145,000.00, and total operating expenses of \$415,000.00. The company generated a net loss of \$270,000.00 for the three months ended March 31, 2015, compared with a net loss of \$515,000.00 for the three months ended March 31, 2014. Net loss per share was \$0.01 compared to net loss per share of \$0.02. Included in the net-net loss is non-cash share-based compensation of \$162,000.00 and the investment mentioned above in our new products. Adjusted EBITDA loss was \$94,000.00 compared to adjusted EBITDA loss of \$304,000.00 in the prior year quarter. As of March 31, 2015 and December 31, 2014, the company had \$1.1 million in cash and cash equivalents and working capital of \$1.9 million, which demonstrates our strong liquidity and continued investment in the growth of ICTV. Additionally, the company had no debt obligations at both March 31, 2015

and December 31, 2014. Now, I'd like to turn the call back over to Rich, who outlined a number of our marketing and strategic initiatives for the remainder of the year.

Rich Ransom:

Thank you, Ryan. While revenue is down year-over-year, the trend continues to go in the right direction as revenue has increased for three straight quarters. For the three months ended March 31, 2015, revenues were \$8.9 million compared to \$8.6 million and \$6 million in the fourth and third quarters of 2014, respectively. A key driver in the increase has been a rebound of our DermaWand Spanish language infomercial. The company recorded sales from the Spanish language version of \$1.9 million compared with \$1.5 million in the prior quarter. The DermaWand English infomercial continues to perform extremely well. Each week, an infomercial tracking company called Media Analytics releases the IMS Top 25 ranking of the media spend and frequency of all long-form infomercials for that week. Recently, DermaWand has been climbing on the rankings and has posted in the Top 10 for four straight weeks, reaching as high as Number 7. This is great news and proves that the DermaWand brand is as strong as ever. The net loss for the quarter was \$270,000.00 compared with \$515,000.00 for the same quarter in 2014. The primary factor in the net loss was the media testing of five new products, which accounted for approximately \$260,000.00 of the first quarter loss. That said, many of these products we tested such as elastin and CoralActives are 100% continuity models, so the expectation is that revenue will be recognized in future quarters as the result of these media tests [Audio Gap] \$60,000.00 loss from new products. The company incurred a \$162,000.00 expense of non-cash stock-based compensation. The last thing I want to say about the net loss is that I'm not happy about it. I said on our last call that Kelvin, Ryan, and I are committed to getting ICTV Brands back to a

position of profitability. To that end, we have made several strategic decisions that I believe will help us do that. Some of those decisions include putting more controls in place around our corporate travel, which has consistently been one of our largest G&A expenses. We also terminated some agreements with outside consultants, which should save the company about \$25,000.00 per quarter for the rest of the year. Lastly, we've been looking to take more advantage of our growing customer list by partnering with some other marketers to sell their products to our DermaWand customers and vice versa. This has proven to be very successful and we are looking to expand these efforts with other marketers in the months to come. With all of these factors and other initiatives we are working on, we are forecasting 2015 to be a profitable year for ICTV Brands. I would now like to take some time to update you on the marketing efforts of DermaWand and the new brands we are actively marketing. For DermaWand, many exciting developments have happened since our last call. On March 19th, DermaWand returned to North American live home shopping with four airings on The Shopping Channel Canada. We had 1,200 units available for the airings that day and sold out midway through the fourth airing. The Shopping Channel will be airing DermaWand again in late June as its featured product of the day. ICTV will have 5,000 DermaWands available for sale that day. We've also made great progress on expanding DermaWand's US retail presence. Just this week, we've placed DermaWand in Curacao. Curacao is a large format retail department store chain. It was founded in 1978 and is headquartered in Los Angeles with retail locations in Southern California and Arizona, primarily serving the US Hispanic market. With eight stores in Southern California and two in Arizona, they're a unique brand that has created a niche in the region by being able to offer credit to the US Hispanic community along with a shopping experience that offers top of

the line goods. There is a population of over 22 million in Southern California with over 9 million Hispanics, while the Phoenix area has about 600,000 Hispanics of the 1.4 million residents. In addition to Curacao, we're in the final stages of setting up with Bed Bath & Beyond for online distribution. They have also committed to placing DermaWand at a handful of stores, primarily in US Hispanic communities. The last thing I want to mention in regards to DermaWand retail distribution is that we are going to be launching DermaWand on some online retail outlets such as Groupon and Overstock.com in the coming weeks. We believe these are good opportunities to feature DermaWand for a limited time to mass audiences who may not be the typical DRTV customer. On the international front, DermaWand continues to perform very well throughout the world. The first quarter international sales grew year-over-year from \$956,000.00 in the first quarter of 2014 to just over \$1.8 million in the first quarter of 2015. We have seen a great expansion in the number of countries and distributors carrying DermaWand over the last year, and we expect that trend to continue as we progress through 2015. The two big additions we expect to add to this list very soon are the United Kingdom and Japan. In regards to the United Kingdom, we're in the final stages of getting through what's called Clearcast approval, which will allow us to air the infomercial throughout the UK. Our expectation is that we'll get this approval over the next four to six weeks and should be ready to launch DermaWand in the UK early in the third quarter. While this process has been more painful than any of us had anticipated, we continue to take comfort knowing that while it's very hard, it will be very hard for any competitive devices to jump into the UK market once we start advertising. In Japan, we are in the process of completing a local safety test called the S-Mark. We have already passed all international safety standards, but our distributor needs S-Mark to be able to sell DermaWand in Japanese retail

outlets. We also believe Japan is only several weeks away from placing their first order. I fully expect to have news to report on our next call in August about orders coming in from both the UK and Japan; so stay tuned. Lastly, I want to update you on a meeting Doug Carothers and I had last week at QVC. As I mentioned on our last call, the double blind placebo test we invested in last year opened the doors for us to meet with QVC's device buyer. In my opinion, the meeting went very well. The buyer is interested in bringing DermaWand to QVC and is willing to help us work to get through the quality assurance and internal legal hurdles at QVC. While this is not in any way a guarantee that we will be able to sell DermaWand on QVC, it is very encouraging to have the support of the [beauty] device buyer. The other encouraging part of the meeting was that the buyer told us that we are welcome to come back and present other devices whenever we are ready. In my opinion, the DermaWand brand has never been stronger and I'm excited about many new initiatives we have planned for DermaWand for the rest of the year. Now, I'd like to turn our focus to the new brands that are still in their infancy stage of development. Elastin-rp is a brand that introduces an exciting science in the skin care, replenishment science. Each elastin-rp product contains the proprietary Bio-elastin complex, a unique molecule that helps support collagen, and more importantly, provides serious elastin support for your skin. Through the first week of April we've spent about \$100,000.00 in television media year-to-date across both long form English and Spanish media, as well as some five-minute English media. To-date we have enrolled over 700 customers in the elastin-rp continuity program. To be completely transparent, our expectations were to have more enrollees for the amount of media we invested in elastin. Our plan now is to wait and measure the continuity stick rate of these customers, then we will determine the next steps for our television marketing. In the meantime, we will continue to

market elastin to our DermaWand customers, both at the customer service call center as well as through email marketing. For more information about elastin-rp, please go to www.tryelastin.com. CoralActives is a new product in the acne treatment and skin cleansing market. CoralActives contains over 2x the active acne fighting ingredient benzoyl peroxide of the leading brands while combining the natural anti-inflammatory benefits of sea whip coral extract. A direct to consumer radio campaign with former US gold medal winning Olympic star, Shawn Johnson, as the spokeswoman for CoralActives launched in January. Unfortunately, the results of that test were not strong and we have suspended the radio campaign at this point. We have, however, been actively marketing CoralActives on the web, particularly in social media. We have over 10,000 followers on the CoralActives Facebook page. In April, we engaged a production company to perform 68 new before and after photos and corresponding video testimonials for CoralActives. We believe this was a necessary step for both our digital marketing efforts as well as any future television creative we develop. We are also looking into some interesting marketing opportunities such as event marketing around concerts or college sporting events. We are actively pursuing new retail opportunities for CoralActives and we believe we'll have some retail placement over the next several months. For more information about CoralActives, please go to www.coralactives.com. Jidue is a facial massager that works through 18 uniquely positioned pulsating nodes which stimulates four key pressure points around the eyes to increase facial blood circulation and lymph flow. In September, we began testing a two-minute spot for Jidue in the United States and Canada. I mentioned on our last call that we had met with EVINE Live, formerly ShopHQ, at the Chicago Housewares Show in March. Since then we have almost completed all the QA process to get a test for Jidue on EVINE. We have a

tentative date for late May, and we will be sure to update our shareholder base once that date is finalized. Jidue has also been testing in several international territories such as Australia, Italy, and South Africa. Our goal is to have many more countries test Jidue in the second quarter. For more information about Jidue, please visit www.jidue.com. Jidue is spelled J-I-D-U-E. 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 Derma Brilliance brand, as well as introduce our newest brand, Good Planet Super Solution to you.

Kelvin Claney:

Good afternoon. I want to start by thanking each of you for joining us today on the call. It's exciting for me to see all the hard work and monetary investment that ICTV has made in these new brands over 2014 begin to gain traction in the marketplace. There are, however, two brands, in particular, I want to give you updates on today. The first brand is called Derma Brilliance which we have been working on now for the better part of two years to bring to market. For those of you who are unfamiliar with Derma Brilliance, it's a cosmetic system in the growing skin polishing sector on the skincare device market. Derma Brilliance constitutes a razor/razor blade continuity model led by hand-held rechargeable device, and optimized by Jewel Resurfacing Cream that contains micronized diamonds and garnets. Both the device and the cream are patented. On the March 19th call, we informed you that Derma Brilliance was slated for launch on April 7th on the Home Shopping Network. I was personally at the launch and in the green room at HSN. While we did not sell out as we had hoped, some very positive things came out of the airings. First of all, I learned a tremendous amount about what makes the consumer react as I was able to watch the course coming live in the green room, and I'm now in the process of taking that information and re-editing the infomercial

based on that information. In a few weeks, I'll distribute it in the Philippines; we'll be testing a new show, and I'm quite confident we're going to see a very positive result which will lead to tests in Mexico, Australia, and Canada. The second thing we learned is that while the inventor of the product is the most knowledgeable person to speak about Derma Brilliance, she is not the best person to pitch the product. HSN is excited to have a spot for another air date and we're currently working with HSN to find the best pitch person for the Derma Brilliance product. We've also recently found out that The Shopping Channel in Canada will be airing Derma Brilliance in late July. My experience is telling me that this product is going to work and I think we're very close to seeing this happen. The last thing I want to tell you about Derma Brilliance is that in March, Rich and his team began selling Derma Brilliance to customers as they purchased their DermaWands. We are selling Derma Brilliance at a discounted price and the response has been tremendous with sales approaching 200 units per week. This is a tremendous response considering it is the fourth upsell read and has added about \$5.00 in average order value to our DermaWand sales. In addition, I recently returned from training our DermaWand customer service agents in Miami on how to sell the Derma Brilliance to customers calling the customer service line. Momentum is building for this brand and we are very excited about what lies ahead for Derma Brilliance for the rest of 2015. For more information about Derma Brilliance, please visit www.dermabrilliance.com. The second brand I'm pleased to introduce to you today is called Good Planet Super Solution. This is a project I began working on over four years ago because our international customers were indicating an appetite for such an item. Super Solution is a multiple use cleansing agent used for washing and polishing cars, cleaning and polishing stainless steel appliances as well as multiple other household

uses. Super Solution is made in Germany and is formulated with the latest base water-based German polymer technology. While this is a departure from the beauty and wellness space that we normally stay in, we felt there was a strong demand for this product worldwide. Recently that feeling was confirmed as we received our first order from our distributor in Australia and New Zealand for over \$200,000.00 of Super Solution product. Several other distributors are testing Super Solution now, and I believe we will see many more territories selling Super Solution over the next few months. We did run a very small media test in the United States in the first quarter on Super Solution. The test performed well, but not well enough to support itself without retail distribution. Currently our sales team is beginning the process of presenting Super Solution to several retailers in both the US and Canada. Once we have some retail tests in place, we'll begin running media again. The early success of Super Solution proves the power of our international distributor network which ICTV has built up over the past several years. We're going to continue to look for opportunities to bring good quality products to our international distributors. I'm very excited about the progress we've made thus far in 2015. Our team at ICTV has been working extremely hard and they are consistently coming out with new ideas on how to generate additional sales. I remain extremely optimistic about the growth of ICTV over this year and the years to come. Now, I'd like to turn the call back over to Rich.

Rich Ransom: Thank you, Kelvin. I echo Kelvin's optimism about our growth. While there are times I wished the growth would happen faster, I'm reminded of where we have come from, being a \$3 million revenue company in 2011 to selling over \$100 million over the past three years. I'm excited to come to work every day because I can see the progress we're making. It is my

hope that this call has given you a glimpse of the opportunity before us and the success we are beginning to have with each brand. I want to thank our dedicated staff, our Board, and our valuable shareholders for your continued support. Operator, we'd like to open the call for questions.

Operator: Certainly. At this time, ladies and gentlemen, if you wish to ask a question, please press the star then the number one key on your touchtone phone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key. Once again, ladies and gentlemen, if you wish to ask a question at this time, please press the star, the number one key on your touchtone telephone. We'll take our first question from John Grimley with TJW Capital. Please, go ahead. Your line is open.

John Grimley: Hey, guys. Congrats on the progress.

Rich Ransom: Thanks, John.

John Grimley: So, a couple of things. What inning do you think we're in as far as international sales of DermaWand go? Then also, could you just give us a refresher? I think the way that sales get accounted for on those international sales is a little bit different than the US. I just want to make sure I have that understand – I understand that more completely.

Rich Ransom: Sure. I think the international opportunity for DermaWand is still tremendously big; there are some enormous markets that we've yet to hit. We've highlighted UK and Japan in this call. Another one that we didn't highlight but we're working very hard behind the scenes on right now is Brazil; and I could go into – we could take a long time to explain the

complexities of how we have to go about in getting DermaWand into Brazil but the short of it is that we basically have to go out through all the medical device testing that we've already done specifically for Brazil, and get certain regulations that only they require. So our anticipation is Brazil will come online sometime in early 2016. Another market that we've been working on again pretty quietly behind the scenes is China. We think we're starting to gain some momentum over there, I can't in good conscience tell you exactly when I think sales will start rolling, but we do have a partner we're working with and we're very hopeful that we'll see some fruit from that soon. Then another that we've just started dabbling in is India. India is complex because of the language complexities there, but we have a couple of different opportunities that we're working on now and we think really there's a third of the world population between China and India that we haven't tapped yet. So in terms of inning, I would say no more than third, [Laughter] but that – so that's that. Then from the accounting standpoint, I guess, Ryan, I'll let you handle the accounting question on how we recognize international versus domestic sales.

John Grimley: More so from accounting, I just want to understand what – if you sell a DermaWand internationally, how much of that [flows] through versus the US; and I said accounting-wise, but I really want to understand from a business standpoint how you guys think about it.

Ryan LeBon: From an accounting standpoint, it's a little bit different because it will be recognized at the time of transfer on shipment and the title transfers to our third-party distributor as opposed to in the US where we have to wait until our free trial period ends which could delay revenue recognition for up to 30 days. We're kind of looking a little bit differently between the two segments; and you've mentioned a great point, John, that the fact that our

international sales, we don't run the media ourselves, so there's really no operating expenses involved with international sales besides the royalties and the cost of goods sold, as opposed to in the US when we run the media and we have bad debt returns and all the different operating expenses like call center, customer service, which could weigh at the profit. So, hopefully, that kind of explains the difference between the two.

John Grimley: That's great.

Rich Ransom: Yes. Just to follow up on that, a good example, as Kelvin brought up with Super Solution, in the United States there's so much competition for our product that you can only sell it for \$29.95 with a buy one get one free offer. It's very, very hard with the cost of media to make money on that. The media rates in other parts of the world haven't gone as crazy as they have here necessarily, and there are places where the market can bear higher prices. I believe our Australian distributor is getting almost double what we were charging here in the States. So one of the things that we're looking at now – and I think we've mentioned on a previous call that our company has over the last year formed a product committee because we've been getting so many products submitted to us. One of the things we really look at is not just, “Hey, can we do this here in the States?” but how can we leverage this great network that we've built with almost 40 distributors covering 65 countries around the world? As we look at these things as a committee, we're now asking ourselves, right, let's look at it from can we do this in the US, but if the answer is no, it doesn't mean that we're not going to proceed, because there may be an opportunity and this is where we – it's very important for us to go to the shows we go to and have face to face interaction with these customers, so we can find out, “Hey, what kinds of products will sell well in your territory?” This is how Kelvin

decided to go forward with Super Solution, and it took a long time to develop that, but we did it and we shot the show, and it appears to be working; and we want to follow that model. As Ryan pointed out, it takes a lot of the risk off the table for us, especially as we're growing. We don't have to go out and spend \$50,000.00 in media to find out something didn't work. We can let somebody test the show, buy a couple of hundred units; if it goes well, great, they buy a whole containerful. If it doesn't, we're only [out the] cost of the show, which is relatively minor in the grand scheme. So, hopefully, that helps give you a little insight into how we're looking at international.

John Grimley: Yes, that's helpful. Then you mentioned for the first time on this call – at least, the first I've heard; I know I've always thought about your database of customers as a potentially valuable asset as long as you don't kind of flood them up too much though. Is that a new development for you guys to start monetizing that asset or find the way to creatively monetize that asset, and how big of an opportunity is that?

Rich Ransom: I think it's a big opportunity and what we've been – I'd say what the new piece of it is that we've opened it up to products that ICTV doesn't own. We have always remarketed our list with the brands we've talked about today as we've had them, but there's only so much you can do. You can't send 50 emails a year with five products. So what we've started doing particularly with one company who is an [ingestible] company, and they kind of have a similar market space, it's mostly targeting women in their middle age to senior citizen range, and we found that to be very successful. We structured it in such a way that it protects our list. We control the distribution, but it's been for us very profitable at this point. It's still small scale but what this has taught us is that we can approach other

marketers and offer them the ability to market to our list, and it's also given us the thought process of as we develop these relationships, why not potentially sell some of our products or offer the opportunity to other marketers to sell some of our products to their customers. Most companies like us are in the same boat; everybody is looking for new revenue streams, new ways to make the lifetime value of the customer acquisition more, so they can run more media and get more sales.

John Grimley: You kind of touched on this, but given you've got a nice slate of developing products, or products that haven't really hit their stride yet, is that international distributor base something you can leverage with those products or you need to get a little bit more sales traction here before you can really get those guys to kind of take the products internationally?

Rich Ransom: Absolutely. We're having some tests right now with Jidue in a few markets. I think the most successful, believe it or not, has been South Africa to date. They just put in a modest order; nothing that's going to rock the world but it's a start; and we have other markets getting ready to test as well. Australia is still waiting to come back to us with what they – whether they think they can roll it out or not, but they did have some positive things to say and they said it's pretty close. So some of the brands create different challenges; CoralActives is a little bit of a challenge just because of the benzoyl restrictions in certain countries. We're working on some ideas to potentially work around that a bit, but for sure Derma Brilliance – Kelvin said, he's working on an edit right now that's going to be tested by many – there are several countries who are screaming for Derma Brilliance and we've basically held back because we know the show has some flaws and it needs to be tweaked. But what we're finding is with the right pitch, which we're doing on the back of our DermaWand script now,

people get it and they want to buy it. We're getting a conversion of almost 10% across the board of DermaWand customers buying a Derma Brilliance; and that's pretty exciting. Kelvin is very confident; I won't speak for him, but I think we're going to have a very different looking show that we're going to test with a friendly distributor in the Philippines; and assuming that gives a lift because he's already tested the old show, if it gives the lift, we're going to just roll it out across the whole network.

John Grimley: Got it. Okay. I'll see if anyone else has any questions, but congrats on the progress and thanks for taking the time to answer my questions.

Rich Ransom: You got it, John.

Operator: Once again, ladies and gentlemen, if you wish to ask a question at this time, please press the star then the number one key on your touchtone telephone; that is star and the number one key on your touchtone telephone; and we'll pause here a moment to allow questions to queue. We'll take our next question from Robert Earle; he is a private investor. Please, go ahead. Your line is open.

Robert Earle: Hey, guys. Good call. Quick question, could you elaborate on the social media that you described relative to the CoralActives, and what's happening and how many people that was, and what parts of social media that represents?

Rich Ransom: Sure. I referenced Facebook on our script; it was about 10,000 people right now who have liked our Facebook page and that we can actively communicate with. We also did targeted ads on Twitter, as well as Facebook. We just started doing some Internet targeting of proactive

customers and that has proven to be very successful, generating very low cost per lead; and we really believe that as we get these new before-and-afters – we've never done any ourself; what we had we inherited. It was mostly – they were okay, but we think that what we're working on now, as we're able to throw those new testimonials which – we're about halfway through the test and we're getting some very, very good feedback from the people who are in the program. We think that's going to really resonate in social media, so we can do ads that link to testimonials that will then link to an order page. So it's pretty exciting; I mean we're really – that's a brand, personally, I have a lot invested in; I spend a lot of time with our digital team and marketing team trying to come up with new ways to hit that market. It's a crowded space. We know we're competing with some big players, but we really do believe we have a superior product and we think we'll begin to get that – we're starting to get that message out and what's been really exciting is seeing while the number of orders haven't been huge, the amount of people who are recurring and taking additional orders has been very, very good; the return rate is in the low single digits and it's starting to gain some momentum.

Robert Earle: One follow-up question also, Rich. I've read the reviews on Amazon for the product; they're really good. Are you doing a fair amount of business on Amazon?

Rich Ransom: Yes, actually, that's been – of all the sales we get right now on a weekly basis, the majority are coming from Amazon. On any given week, we get dozens of orders through Amazon which considering our marketing is pretty limited at this point, it's good; it means a lot of people are going back and re-ordering, especially people who as much as we want them to

be in an auto-ship program, several people would rather just order as they go and right now Amazon is the only outlet that allows you to do that.

Robert Earle: Okay, thanks.

Rich Ransom: You got it.

Operator: Once again, ladies and gentlemen, that is star and one on your touchtone phone to ask a question; again, that is star and one on your touchtone phone. We'll pause here another moment to allow questions to queue. We'll take our next question from John Grimley with TJW Capital. Please, go ahead. Your line is open.

John Grimley: Rich, sorry, I just want to touch base on two more things. Profitability, I mean, so I know you're guiding the profitability for the year. How confident are you in that or how much visibility do you have that you'll be able to get there?

Rich Ransom: Every day I sit with Ryan and I ping him on that. In my mind, it's not an option not to be profitable this year. We're going to do what it takes to be profitable and we're generating at a run rate right now of about \$32 million, \$33 million. Based on our headcount and our fixed costs, there's no reason we shouldn't be profitable and...

John Grimley: Rich, what's your headcount currently?

Rich Ransom: We have 15.

John Grimley: All right. So that's more than \$2 million per employee which is a pretty healthy number. Okay. Then, sorry, the other question – I don't remember what the other question [Laughter] – all right. So profitability was the key thing, and I think you've touched on it, I was going to ask how many employees. I wanted to get that metric, make sure I had that metric correct.

Rich Ransom: No problem. Thanks for the question.

John Grimley: I guess, holistically, which of the developing products – I mean, I know you guys, your business model is to try stuff, not spend a lot of money when you have the message right, that's when you'll spend money and really start to garner real returns on those products and that's one of the things I like about the way you guys are doing things. But which of those are showing the most traction right now? If you had to guess, which one is most likely to start to really see an uptick in sales in the next 18 months? Which one would it be or which one or two would it be? I know sometimes things happen unexpectedly and it might not be one of the ones you mentioned.

Rich Ransom: Well, ironically enough, Super Solution right now has the most momentum, [Laughter] because there are so many distributors testing it and knowing the distributor we work with in Australia that he put in the order he put in right away, we believe there are many more of those orders following behind. So I wouldn't be shocked if Super Solution did over \$1 million to \$1.5 million this year in revenue.

John Grimley: Wow, that's a product we didn't really know existed until this call, right?

Kelvin Claney: We've kept that as a secret. [Laughter]

Rich Ransom: Yes. It was one we wanted to kind of do behind the scenes just because it's out of our norm a little bit in a sense that most of the brands are in the health and wellness space; that said though, the ones that we're actively working on in the US, I think because of – Derma Brilliance has been hard to make work because it's a very hard product to show on a camera the effect of it. If you use it, you feel the effect; everybody we've ever used it on – buyers at live home shopping channels, people at trade shows, they get it, they get it right away, they want it, they want more. It's a hard message on TV and that's what we're struggling with right now, but Kelvin – and I have full confidence in Kelvin; he's going to figure out how to do this. I think he thinks he's figured out how to do it. We're weeks away from another test; so that's exciting. I still believe based on the response we're getting – with DermaWand customers, I mean, the last six weeks we've sold – we've been running close to 200 a week just off the backend of DermaWand. So it's gaining momentum, but I think long...

Kelvin Claney: Yes. [I think] that a household that has a DermaWand and a Derma Brilliance, I'm actually seeing more use of the Derma Brilliance within my household, so it tells me the product has got real utility. But I get what you're saying as far as...

Rich Ransom: It's a much more razor/razor blade model than DermaWand. While we've, I think, done a pretty good job building a continuity program off the DermaWand, if you ship as many Derma Brilliance as you ship DermaWand, the sales would be double or triple, in my opinion. Blue Sky, read the statement again. [Laughter]

John Grimley: No, that makes sense because that's, to me, between...

Rich Ransom: As I look at the – yes, as I modeled it out with Ryan, and we say this is what we would anticipate, that's why we're so excited about Derma Brilliance and we refuse to give up on it. But long term, I think while it's still further away than Derma Brilliance, I still believe CoralActives has a tremendous upside. If we can get the underground social media, get a brand awareness out there and get people trying these products, anyone that needs an acne product that tries this will love it; I'm 100% convinced. Again, everybody we've given it to – we gave it to the producer that's doing the before-and-afters and she had a little bit of an acne issue and she took a picture the first day we gave it to her, and two weeks later she sends me another photo and it's all gone; and she's like, "This is unbelievable. Can you please send me more?" That's a common story. So I think those two brands, to be honest, we're probably the most optimistic on. I think Jidue still has a great chance; maybe not to be a homerun because it doesn't have the continuity aspect to it and we've tried – we're still trying to tweak that and figure that out, but we've got this test coming up on EVINE in May and a couple of places around the world that are starting to see some success with it; so that could easily be a nice single or double. Elastin is probably the one that's struggling the most, if we're being honest, and we're kind of in a wait-and-see mode as we – we're kind of stopping our media efforts at this point and we're going to let the continuity tell us the story at this point. So that's my summary of the products from my standpoint. I don't know, Kelvin, do you want to throw anything else in?

Kelvin Claney: No, it pretty matches what I've seen. I think Derma Brilliance is probably – you can see it's starting to gain momentum. We're learning enormous amounts about the product. We should be able to get the test up in Manila

towards the whole Philippines, but Manila is the major metropolis there. We should be able to get that test up by the last week in May, and if that's successful, we'll be getting it going in Australia and Mexico straightaway, and Canada, and then we'll come back and revisit the States because for the US we will have to reshoot some more video and do some stuff, whereas for these international ones we don't have to. So we just want to get the international stuff rolling first and then we'll come back and revisit, [a new show premiere].

Rich Ransom:

One thing I want to kind of put out there that wasn't in our prepared remarks, as we're looking at profitability this year, and we are projecting profitability, we've still built in a significant portion of what I would call investment dollars in production, product development, clinical testing. We need to keep doing that; that's our business model and while we've ratcheted it back from 2014 levels, it hasn't gone away and our commitment to continue to look for good quality product and invest in the development of that is there, and we will always have that forecasted. So I don't want to give the impression that we've cut that out and we're just going to take our chances with the brands we're currently working on. There are things in development. We didn't really give much of an update on the Juvion devices, but we are finishing up some testing with those now. They're probably more of a 2016 – we have no creative assets at this point, so there's not much we can do with it other than Internet marketing, but they're getting closer and they're very unique devices that we're excited about. So, yes, we've definitely taken a bit of a hunker-down approach to make sure every dollar we spend goes towards things that are going to earn us \$2.00 or at least \$1.00 in change, but our commitment to growth is there and we're going to continue to look at the products that are

presented to us and strategically pick the ones we think have the best chance to be successful.

John Grimley: Perfect. Thanks.

Operator: Once again, that is star and one on your touchtone phone to ask a question today; that is star and one on your touchtone phone. We'll pause here for a brief moment to allow questions to queue. It does appear we have no further questions at this time. I will now hand it back over to our speakers for any additional or closing remarks.

Rich Ransom: Thank you, everyone, for joining the call today. Our tentative date for our second quarter call is going to be August 6. We'll get more information up a week or so ahead of time, but that's the date as of right now. So thank you very much and we look forward to giving you another update in August.

Kelvin Claney: Thank you very much.

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