

ICTV
Rich Ransom
ICTV Brands
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Operator: Good day, ladies and gentlemen, and welcome to the ICTV Brands Second Quarter 2016 Conference Call. At this time, all participants are in 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 star (*) then zero (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 quarter ended June 30th, 2106. 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 the progress made during the second quarter with the company's strategic shift to a more diversified marketing strategy, I will review the company's financials, and Kelvin will give an update on the company's international sales and current product initiatives, 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 performance 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 risk and uncertainties that affect our performance and other factors that could cause our actual results to differ materially.

With that said, I'd like to turn the call over to Rich Ransom.

Rich Ransom:

Thank you, Ryan, and thank you to all who have joined us on the call today. Our team continues to work tremendously hard executing the strategic initiatives we have laid out on the last several conference calls. Today's call will focus on updates to the key pillars of our strategic plan which remain building out our digital marketing platform and expansion of global distribution for our products.

Some specific highlights and updates that we will further discuss on the call today include: positive cash flow from operations of \$306,000.00 increasing cash from year end to \$1.5 million; increased revenue to \$4.5 million in Q2 from \$3.7 million in Q1, an increase of 21.6%; updates on the direct-to-consumer business and new marketing initiatives; the continued distribution expansion for our products in several major e-commerce sites including Walmart, Bed Bath & Beyond, J.C. Penney, Sears and soon to be added, Kohls.com; we'll give a brick and mortar retail sales update; the launch of a new ICTV operation in the United Kingdom this fall; progress on the new DermaWand unit; and updates on new international distribution opportunities.

On the surface, someone might look at the second quarter of financial results and conclude it was an unsuccessful quarter to do a netloss recognized. In a few moments, our CFO, Ryan LeBon, will walk you through the financial result, but before he does, I'd like to highlight a few key points.

First of all, we have been very conscious as a management team to manage cash flow as can be seen by the positive cash flow from operations and increase in overall cash balance since the end of the year. It is often said that cash is king and we hold to that mantra.

Secondly, we know to grow we need to make strategic investments. To that end, in the tail end of 2015 and through the first quarter, we invested in two commercials: one for our Jidue Facial Massager and another for Ultimate Pedi by DermaWand, geared to drive sales internationally through our third-party distributor network. While the majority of the payments for these creative assets occurred in prior quarters, the full expenses of those commercials were recognized during the second quarter which had a negative impact on earnings in the short-term. I will give some updates about these products in a few minutes which should show how these investments will in the long run produce a positive return on investment.

Lastly, the increase in revenue to over \$4.5 million during the second quarter was the highest quarterly revenue recognized since the second quarter of 2015. Much of the increase came from our direct-to-consumer and retail business which is heavily driven by our increasing digital marketing efforts. While our team is very confident that we are generating these sales at a lifetime profitable level, there are some timing issues that

affect short-term profitability such as lagging continuity sales that are spawned from these new orders and our inability to recognize revenue on free trials that occur at the last sales month of the quarter. With those thoughts in your mind, I will turn the call back over to Ryan who will give more details to the second quarter [financials].

Ryan LeBon:

Thanks, Rich. Revenues for the three-month ended June 30th, 2016 were \$4.5 million compared to \$7.3 million in the prior year quarter and \$3.7 million in the first quarter of 2016. We are encouraged by the increase in net sales from the first quarter as we have been able to increase our efficiencies. The company was able to broaden its media footprint as we continue to build out our digital marketing platform and diversify our sales channels with additional ecommerce and retail outlets in the upcoming months.

Our revenue from brick and mortar retail sales was \$156,000.00 compared to \$58,000.00 in the prior year quarter. While our ecommerce sales revenue for online marketplaces such as Bed Bath and Beyond.com and Walmart.com amounted to \$122,000.00 compared to zero in the prior year quarter. We're hopeful that these new revenue streams will continue to grow throughout the remainder of the year in our ecommerce sales which will help drive to push the significant in-store placement within North America.

International third-party distributor revenue was \$1.1 million compared to \$1.6 million in the prior year quarter. Our international distributors are being impacted by the appreciation of the U.S. dollar and overall global economic slowdown. Additionally, quarters can fluctuate based on the timing of shipments at period end as well as scheduling considerations

with our distributors and customers. The company is continuing to work on a new model and marketing campaign for DermaWand as well as further diversifying its international product portfolio in order to grow this segment in the future.

Significant quarterly decreases include media expense reductions of \$342,000.00, answering in customer service decreases of \$251,000.00 and merchant fee decreases of \$70,000.00. Total of general and administrative expenses decreased to \$1.1 million from \$1.4 million in the prior year quarter as a result of bad debt expense decreases of \$137,000.00, payroll and share- based compensation-related expense decreases of \$126,000.000 and travel expenditure decreases of \$40,000.00.

As Rich mentioned, the second quarter was impacted by one-time production costs of \$196,000.00 due to the launches of Jidue and Ultimate Pedi. All production costs are expense at the beginning of the campaigns, creating a lag with the recognition of revenue and income as the campaign and customer bases for these products grow.

Net loss was \$601,000.00 compared to net income of \$287,000.00 in the prior year quarter. Earnings per share was a loss of \$0.02 as compared to earnings of \$0.01 in the comparable prior quarter. Adjusted earnings before interest, taxes, depreciation and amortization, adjusted EBITDA, was a loss of \$440,000.00 compared to EBITDA of \$455,000.00 in the prior year quarter.

For the six months ended June 30th, 2016, we had positive cash flow from operating activities of \$306,000.00 compared to cash flow used by operating activities of \$892,000.00 for the same period in 2015, which is a

positive swing at \$1.2 million. We're committed to maintaining the appropriate liquidity levels and believe we have the right plan in place to do so.

With that said, I'd like to turn the call back over to Rich to further discuss our marketing and retail plans in the upcoming quarters.

Rich Ransom:

Thank you, Ryan. As I mentioned at the beginning of the call, our strategic plan remains centered around two core principles: building out our digital marketing platform and expansion of global distribution for our products. I would now like to take the next few minutes to share with you some exciting new areas our marketing team is exploring in the digital marketing arena.

On the last call, I announced that we began doing something called programmatic display advertising to expand our audience for DermaWand. In short, this type of advertising is done through identifying our current customer's profile and understanding where they live on the internet so that we can target those sites to create new customers. Since our last call, we have continued to scale this program, now at almost \$3,000.00 per week in advertising spent while maintaining a profitable cost per order. With each passing month, we are able to scale this type of advertising without compromising our return on investment, which is very exciting. Currently, we have the same company who is serving up these ads for DermaWand collecting customer data for our Jidue brand so we can build a customer profile and hopefully soon begin a programmatic campaign for Jidue.

A new area of digital marketing that we are just starting to explore is content marketing. This type of advertising is done through creating organic-looking articles to attract new customers who are interested in a problem that one of our brands could solve. Our in-house marketing team has written several educational articles that will engage prospective customers through intriguing content that will ultimately push them into our digital sales funnel.

Another area we are seeking to grow is email marketing. In the past, we have just marketed to our list of customers who had already bought one of ICTV's products. During the second quarter, we engaged with a company that is helping us grow our email list by capturing qualified emails of potential customers who have not previously bought products from ICTV. When these emails are captured, the people entering their contact information know that they will be receiving special offers from DermaWand which can include offers of any of our products that we sell.

Currently, we are building our list at about 500 emails per day and we are doing this at a very low cost per acquisition. Once the emails are acquired, they are put into an automated email conversation that cycles them through a variety of product offers over a severalweekperiod. We are seeing great initial results from these email efforts and are looking to continue to expand our ability to capture new leads while maintaining the low cost of acquisition.

Of course, social media marketing remains a core component of our digital strategy. Our team continues to optimize ways of engaging audiences for our brands on social media. This quarter we have begun incorporating

video into our Facebook ads, which has been very well received from a cost per view standpoint.

I hope you can see that with each passing quarter, our digital marketing platform continues to expand. This is so important because it allows us to more efficiently target our potential customers and ultimately increase our return on investment for each advertising dollar we spend.

The second core component of our growth strategy, which goes hand in hand with building our digital platform, is expanding global distribution channels for our brands. In the U.S. and Canada, our new distribution focus is squarely on getting our brands distributed on the shelves of major retailers. We have seen a small glimpse of the success that can be achieved with a relatively small number of stores in Quebec. Currently, we're in just about 450 doors, which generated \$156,000.00 in the second quarter in sales revenue. It is easy to do the math to see what sales could look like if we were in 4,000 doors or more this time next year. The numbers get exponentially bigger as we add new SKUs to the mix. Simply put, getting brick and mortar retail placement is our sales team's focus as we look to expand distribution in the United States and Canada.

So what is the plan to achieve this goal? The first step is already well under way by getting as much placement for our products, on major retailer's ecommerce sites and efficiently directing web traffic to their sites. The ultimate goal of selling products on retail.com sites such as Walmart, Bed Bath & Beyond and J.C. Penney is to prove to the in-store buyers that our brands are something that their customers want to purchase.

We believe this strategy is working. Bedbathandbeyond.com is the retail site we have been selling on the longest. Since May, our sales team has been in the process with the buyer at Bed Bath & Beyond, working on getting approval for an in-store display for the DermaWand. We're in the process of making what we believe will be the final display which our team will present to Bed Bath & Beyond in their offices two weeks from today, May 23rd. Once the display is approved, DermaWand has been approved for a 30- to 50-store test. Assuming that the test is successful, the plan will be a storewide rollout in the Bed Bath & Beyond's over 1,000 stores throughout the U.S.

DermaWand is opening the door with the retailers, but what is exciting to see is that once the door is open, many retailers are now starting to look for other of our brands to be sold on their sites. Currently, Walmart is carrying Jidue, DermaBrilliance, Ultimate Pedi and DermaVital Preface. We are also in the process of setting up DermaBrilliance and Jidue on Bed Bath & Beyond's ecommerce site. Jidue is also being sold on JCPenney.com as well as BestBuy.com.

I'm also pleased to announce today that we are in the final stages of setting up both DermaWand and DermaBrilliance with Kohls.com. We believe the Kohl's customer is a great match to who we know the typical DermaWand customer is. With the addition of Kohl's, we are well-positioned with very high profile online distribution points for the upcoming holiday season.

Another area where we see a tremendous growth opportunity is expanding our direct-to-consumer and retail distribution in the United Kingdom. For quite some time, we have been attempting to break into U.K. market

through our traditional approach to international sales which is using third-party distributors. This has proven to be very difficult in the U.K. for a variety of reasons so we have decided to take matters into our own hands. In June, I took a trip with our Vice President of Sales, Doug Crouthers, to the U.K. We spent about a week traveling the country meeting with several retailers, including two of the largest in the U.K., Boots and Argos, both of which were receptive to placing DermaWand on their ecommerce sites as a proving ground to get placement in their stores. We also met with live television home shopping companies and in a few minutes, Kelvin will give you a very exciting update about an upcoming opportunity for DermaWand with Ideal Shopping, one of the largest home shopping networks in the U.K. We also visited a third-party warehouse and fulfillment center that we have now engaged and are in the process of setting up with.

Our plan is to launch a direct-to-consumer campaign by the end of September using both digital and print advertising to begin branding the DermaWand in the U.K. As time progresses and as we get placement with retailers, we do have plans to launch television advertising as well.

I personally am very excited about the operation we are setting up in the U.K. DermaWand did have some success back in the 2006/2007 timeframe, but has not been sold in the market for nearly a decade. Now with the investment in our double-blind placebo clinical study, along with the subsequent publication of that study in a major international medical journal, we have the proper substantiation to make the claims needed to properly market the sale of the DermaWand in the U.K. However, setting up the operation goes well beyond DermaWand. We will also be able to market all of our other brands as well as potentially via third-party

distributor for other major U.S. brands that do not have their own operations in the U.K.

The foundation for growth and sustainable profitability is being laid. Our marketing team has worked very hard in advancing our ability to reach new audience through a rapidly growing digital platform while our sales team continues to broaden our distribution capabilities.

Now, I'd like to turn the call over to Kelvin who will give you an update on our product pipeline and advancement in opening up some new international markets through our distributor network.

Kelvin Claney:

Thanks, Rich, and good afternoon. I appreciate everyone who has taken the time to join us today, or who will take the time to read this transcript in the future.

About nine months ago when we made the strategic shift to focus on building a robust digital platform and focusing our attention on developing partnerships with major U.S. retailers, we knew some investment would need to be made to build a sustainable foundation for long-term sales growth and profitability. I'm so pleased that our team has been able to advance our strategic plan while still growing our cash balance from year end and maintaining positive cash flow from operations.

As Rich mentioned, one of the core areas we are focused on is expanding global distribution of our brands. Live television home shopping is an area of distribution that we have not had enough success in the past years. I've personally been focused on working with the sales team to open opportunities specifically for DermaWand which we know when given

presentations on live television channels around the world has always been very successful.

I'm pleased to announce today that Ideal Shopping in the United Kingdom has embraced the opportunity to exclusively relaunch the DermaWand into the U.K. market after nearly a decade. We are scheduled to launch in September with two airdates, one on the 14th and the other on the 27th. I plan to be in the U.K. for those airings and Ideal has told us that if these airings are successful, which we are confident they will be, DermaWand will be slotted for a Pick of the Daysometime during the Christmas season, likely late November when the DermaWand would be featured with several airings over the course of one day. Back in 2007, DermaWand was Pick of the Day several times and we would easily sell 4,000 units in a day. We're happy to be redeveloping ICTV's partnership with Ideal Shopping and we are excited to report back to you on the results of the first airing in September.

In addition to opening the U.K. market directly, we will continue to pursue opportunities to work with distributors in territories our products are not currently sold. While it is taken far longer than we'd hope to solve the electromagnetic current issue to receive the S-Mark Certification to sell in Japan, we continue to make progress towards finalizing a DermaWand design that can pass without compromising the results that the DermaWand delivers to the user. Our consultants are in communication daily with our factory and with our engineers to solve the remaining issues. We believe we are close to having working units to resubmit for S-Mark testing. We are frustrated with the time it's taken to break into the Japanese market, but we remain resolved, as does our partner in Japan, that the efforts will be well worth the wait.

As we make progress towards getting DermaWand in Japan, another very promising Asian market that has never sold DermaWands in is Korea. The Korean market presence, similar but slightly less stringent EMC requirements. Our sales team has now engaged with the distributor who's working with us to get DermaWand certified to sell in SouthKorea. Many of the efforts we have put towards the Japan unit have also been helpful in regards to opening Korea. We are hopeful we'll be able to sell DermaWands in Korea before the end of the year.

Another development project we continue to work on is the completion of the new DermaWand unit. As I mentioned in the last call, the next version of the DermaWand will have a sleeker design and allows a variety of different colors for the unit. The new unit will also be more powerful than the original DermaWand. We have yet to begin production of the new unit as we are in the process of making sure that all current components will fit into the sleeker design. We're being cautious about investing in the new tooling until our engineers are 100% confident that the circuit board will fit. We're very close and believe we'll be ready to begin building the new tooling in the next several weeks.

The new DermaWand is a very important part of our long-term growth strategy. As our team begins to get placement into major U.S. and Canadian retailers and launching into the U.K. with the original unit, we'll be in a great position to have multiple SK use of the DermaWand in the stores by the middle of 2017. In addition, we believe the new unit will give a boost to our U.S. direct response campaign as well as reinvigorate several international markets that have been saturated [Unintelligible].

I truly believe by this time next year, we'll be actively selling DermaWand in more countries at any one time at any point in ICTV's history with some new markets such as the U.K. and Japan selling the original version while other markets such as Germany, France and Mexico will be selling the new version of the DermaWand.

The last topic I'd like to cover today is an update of our product pipeline. As you know, one of the great advantages of digitally focused marketing strategy is that it costs a fraction of the amount to test product on a digital platform compared to a television test. Our team has been quietly behind the scenes testing several new products, many of which are starting to show signs of promise.

One product that we are very excited about is called Wrinkle Filler which is a cosmetic product that is designed to immediately fill in unwanted lines or wrinkles on the face. The results are temporary but give the user an immediate makeover, which has proved to be something there is a high demand for. The team tested this product by emailing our DermaWand customer list, launching a Facebook campaign and offering Wrinkle Filler for sale on Amazon. The results were very good and the great part is there is continuity program that's being developed which we are now building and analyzing. We believe there may be an opportunity to rebrand this product and make it part of the DermaWand line.

Another product that has shown great promise is Dr. Ho's Perfect Back Rest. We announced our partnership with Dr. Ho late last year and our commitment to them was to do a traditional U.S. television media test with the [creative] Dr. Ho's team had developed. The results were not strong

but we convinced them to allow us to perform a digitalmarketing test using primarily Amazon as the distributor. These results have been very good and we presented a new strategy to Dr. Ho's team that incorporated using other major retail ecommerce sites to expand our digital test with the hopes of them getting in-store placement for the PerfectBack Rest.

I'm pleased to announce that just last week we signed a long-term agreement between Dr. Ho and ICTV so that ICTV will be the exclusive U.S. seller for Dr Ho's PerfectBack Rest, with the only exclusion being live television home shopping which Dr. Ho will handle himself.

What is even more exciting is that within 48 hours of signing the agreement, we received a commitment from Walmart and Bed Bath & Beyond to sell the PerfectBackrest on their ecommerce sites. Our team is very excited about the partnership with Dr. Ho and we believe that success with the PerfectBack Rest could lead to ICTV selling other products in the Dr. Ho line.

Juvion is a brand we introduced to you a few quarters ago. In just the past few months, we have finally received our first order of the product which consisted of two unique beauty devices. One we have branded [Skin Expert] which combats forehead wrinkles and laugh lines. The other small unit we have branded [Eye Expert] which targets crow's feet and under eyewrinkles. Both devices use four types of techniques to stimulate blood circulation and increase the composition of collagen and elastin. So far our marketing team has only launched this product on Amazon and initial results are very promising with almost \$10,000.00 in sales in the first few weeks of testing with a very minimal advertising spend. The line also comes with additional products including an ionic serum as well as a mask

for the face and eye areas. Those products lend themselves to great continuity programs. We plan to present Juvion devices to all our retail partners very soon.

We continue to work with QVC on our EdgeVantage Mop. This mop is unique in that it bends on one side to clean the baseboards and corners of the floor that are typically hard to reach with an ordinary mop. We have just one quality control test left to complete for QVC then we should get an airdate assigned to us in the near future.

Lastly, we're currently in postproduction for a long form infomercial. We are shooting primary for our international distributor partners for a fitness product we have branded [SpinForce]. We completed the primary shoot in July and should have a finished show to present to our distributors by mid-September where our sales team will be meeting with most of our distributors at the Electronic Retailing Association's D2C Convention in Las Vegas. This is a product category that's very successful with our distributors and we are confident we're introducing this product at just the right time so that rollout can occur around the beginning of the New Year as people are making their New Year resolutions.

As I hope you can see, a tremendous amount of progress has been made both in developing our digital platform as well as expanding our distribution channels around the globe. We also believe we have a great mix of new products in our pipeline to continue to fill the new sales channels our team is generating. Our management team led by Ryan, continue to do a tremendous job in managing our resources and keeping our cash levels strong while still investing in future growth.

Now I'd like to turn the call back over to Rich for some closing comments.

Rich Ransom: Thank you, Kelvin, and thank you all again for joining us today. I remain convinced that the strategic planour team laid out to you nine months ago is providing the building blocks for long-term profitable growth for ICTV Brands. What we are doing is not easy, but most things worth doing are not. I am encouraged by the enthusiasm and commitment I see from our team each day and I want to take this opportunity to publicly thank them for their hard work and efforts.

As I did on the last call, I would like to encourage all of you who want regular updates on the initiatives we have been discussing today to regularly visit our website, www.ictvbrands.com. You can sign up to have updates mailed directly to your inbox by entering your email address at the bottom of the main page under Investor News. Also, please regularly visit our blog which has new content posted several times a month.

Operator, we'd now like to open the call and take questions.

Operator: Thank you. Ladies and gentlemen, if you would wish to ask a question at this time, please press the star (*) then the number one (1) on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound (#) key. Once again if you wish to ask a question, please press star (*) then one (1) on your touchtone phone.

We'll take our first question from Mike [Travelus] with Private Investor, please go ahead.

Mike [Travelus]: Hi, my question is you said there is some high amount of commercial launch expenses that you had to recognize. If you had to normalize that or strip them out, where do you think you would be for the quarter?

Rich Ransom: Yes, I think we would have been a lot closer to breakeven. The big expense that we took this quarter was about \$200,000.00 in production-related expenses directly related to our Jidue infomercial as well as our Ultimate Pediinfomercial, both of which are just now starting to get some rollout in the international space.

Once you back that out and you kind of look at the other key component that always is an issue for us is as we start to ramp up our direct-to-consumer sales, we have some revenue recognition issues that in the short-term hurt us. So I believe this quarter, and correct me if I'm wrong Ryan, we were somewhere around the \$130,000.00 mark in what we call unrecognized revenue. It's not even unrecognized revenue, it's really just sale on consignment, if you will because we offer free trial to our customers. So as we have the opportunity to kind of expand the digital marketing efforts and even we've seen television rates come down so we've been able to take advantage of that a little bit over the second quarter and into the third quarter, as we've ramped up those initiatives, it's caused us to incur kind of a deferral of revenue.

But we're pleased. Again I just want to emphasize we really have been managing heavily to maintain our cash levels. We manage that on a daily basis and as you can see, we've used what we had and made the most of this quarter with being able to take advantage of opportunities to grow revenue.

Mike [Travelus]: The 306 is for the six months then on the cash flow?

Rich Ransom: Yes.

Mike [Travelus]: Okay. So you feel that the ecommerce is starting to build, starting to percolate so to speak?

Rich Ransom: Yes and we actually see that in results that we get on a weekly basis from particularly the retailers. I think we launched and it was around the May timeframe with Walmart and slowly almost every week we're seeing higher sales, higher sales each week since that May launch and they haven't quite caught up to Bed Bath & Beyond yet where we're doing roughly between 100 and 125 a week of DermaWand, which is really good at a \$90.00 price point. I think Walmart's now getting close to about 60, so they're about halfway there, but Bed Bath & Beyond had about a six-month head start on them.

What's really neat about doing business with these large companies is, is once you kind of drive traffic into their sales channel, they start investing dollars and remarketing digitally. So if for instance you were to click on one of our ads on Walmart or one of our listings on Walmart, at Bed Bath & Beyond, you would start seeing remarketing ads directly from those companies and those aren't dollars coming out of our wallets. So once we can drive that initial traffic to them, they kind of start to build momentum which is really, really good to see.

Mike [Travelus]: Yes. Okay, that's all I have. Thank you.

Rich Ransom: Thank you.

Operator: Once again that is star (*) one (1) ask a question and we'll pause just a moment to allow more questions to queue. And it appears we have no further questions at this time.

Rich Ransom: Okay. Well, if that's the case, we thank you again for joining today and look forward to bringing you updates throughout the quarter and should have another call scheduled sometime in early November. Thank you, everyone.

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