MIMI'S ROCK

# Mimi's Rock Corp.
# Q4 and Year End 2020 Results
# Conference Call Transcript

**Date:** Thursday, April 29, 2021

**Time:** 11:00 AM ET

**Speakers:**

**David Kohler**
Chief Executive Officer

**Andrew Patient**
Chief Financial Officer

**Operator:**
Good morning and welcome to the Mimi's Rock Q4 2020 Investor Conference Call.

Today's call will provide information and commentary on the Company with a focus on financial results released yesterday morning. We will hear from David Kohler, Chief Executive Officer, and Andrew Patient, Chief Financial Officer.

First, here are a couple of housekeeping notices. All participants are in listen-only mode for the duration of the call. This call is being recorded and we expect that a transcript of the recording will be available on Mimi's Rock website in the next two days.

We remind you that today's remarks will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please read our advisory at the bottom of the Company's news release, which is on their website and filed on SEDAR.

I will now hand the call over to Mr. Kohler. Please go ahead, sir.

**David Kohler:**
Good morning, everyone, and thanks for joining us on our Year End and Q4 2020 results call. We'll turn the results we filed Wednesday shortly. But first, I want to take a moment to tell you a little bit about Mimi's Rock and our state of operations for the year ended December 31.

Mimi's Rock Corp. owns and operates a number of online brands and sold in various jurisdictions around the world all via ecommerce. We have brands which are in the wellness space and include vitamins and supplements for human consumption, as well as skincare products and a pet supplement line for companion animals. We sell these items in Canada, the United States, several European countries, as well as Australia, and through wholesale partners into South Korea and China as well.

Our strategy since we began the business was to scale through a combination of organic growth, as well as strategic acquisitions. The business was established with the acquisition of the Dr. Tobias brand in mid-2018 and followed by acquisitions in the skincare space in 2019. While 2020 was a productive year in terms of geographic and channel growth, there were no M&A transactions. Acquisitions of brands and businesses in the online wellness space remain a focus and we expect 2021 to be a combination of both organic growth and acquisitive growth. We look to expand top line revenues and EBITDA margins.

2020 was a year full of unexpected twists and turns, but ultimately, a very successful one for the Company. While the global pandemic caused unforeseen challenges, it also reaffirmed our belief in the two macro forces which underpin our overall strategy: namely the continued drift of consumers from traditional bricks and mortar retail to ecommerce, and the overall focus people are placing on their own health and wellness.

Many of you have been following Mimi's Rock and will know that the fourth quarter of 2019 was a difficult one. We had negative earnings and saw a poor quarter from a revenue perspective, due in large part to the way digital advertising, and in particular, Amazon advertising was evolving. Coming off of this poor quarter, we began the 2020 year on a mission to quickly adapt and re-establish our growth, profitability and overall trajectory.

In Q1 2020, we did just that. We and the rest of the world then ran headlong into a burgeoning global pandemic. Fortunately, we acted quickly and shifted to running our business with a remote staff. Rather than being severely hampered, as many were, we were able to minimize the impact of COVID-19 and continue to offer our products when many others were not.

As the economy pitched and lurched, we saw continued strong revenue and growth in e-commerce and in our wellness lane. To say that the pandemic created tailwinds in the space would be true, but to have more balanced view of what occurred, we must also consider the headwinds as well.

While the accelerated move to online commerce caused by COVID-19 was a potential opportunity to capitalize on the Company's operational strengths, there were also many challenges. Amazon was consistently in the news as the initial shutdowns began. In the U.S. alone, they hired over 500,000 new staff in 2020. It's difficult to imagine onboarding and training that many new people in such a short period of time. Too, I'd imagine manufacturers, supply chains, shipping companies and others all had to react to staff shortages, reduced availability of components and other COVID related challenges.

During this period, we were seeing strong turnover but we were concerned about possible backorders, stock outages or just in fact getting stock into Amazon fulfillment centers at all. Management adapted quickly to this new reality and in order to try and protect our revenue streams, made the decision to increase our average days on hand and finished goods inventory. While this required us to commit additional working capital to our inventories, we felt it was the most prudent use of resources as we strove to ensure continuity of revenue and customer service levels. The strategy worked. During the 2020 year, we had virtually no stock outs, and we saw steady revenue performance.

We were able to make good velocity in our top products throughout the year, but it was difficult to capitalize on normal top selling days due to continual disruptions. Prime Day, for example, which is typically Amazon's biggest single revenue day of the year, was rescheduled several times, ultimately moved to October rather than July, was challenging for brands to properly prepare.

Digital marketing spends are unlike traditional marketing in that promotional activities create click-throughs and directly attributable sales. These measurable results lead to detailed metrics, which can inform tuning of promotions and adjustments. Things like return on advertising spend and average cost of sale are metrics we monitor and work to optimize. The result of this work is that margins are generally trending very well.

In general, while demand remains strong, consistent changes in 2020 event dates such as Prime Day made it difficult to fully take advantage. The Company supplemented typically strong event days with more regular ad hoc sales promotions and was able to maintain strong product velocity through a typically slow end of year period.

Sales from the Company's own e-commerce sites as well as through additional online retail outlets continued to grow. However, at this juncture, the majority of sales of the Company's product conducted through the various Amazon platforms. I'd like to take a moment to talk about our continued growth strategy.

The Company's top 10 products account for a majority of its revenues. These products represent leaders in their categories and have a strong customer following. The Company continues to adapt its brand strategy, advertising spend and execution strategies to optimize performance conditions as the online channels evolve. These strategies, combined with careful new product selection, foster organic growth in existing channels.

Throughout 2020, we've also continued our geographic expansion, while also adding new portals within existing jurisdictions. Mimi's Rock has evolved from a single brand on the amazon.com channel to our current status of selling vitamins and supplements in Canada, the U.S., Germany, and skincare products in each of those markets, plus additional European markets and Australia.

Further, we sell a line of pet supplements in North America and sell many of our products into China and South Korea through wholesale agreements. We've also moved beyond Amazon exclusively and now sell on walmart.com, iHerb, eVitamins and Chewy.com. We see lots of opportunity to expand our existing brands internationally, and are diversifying and building new revenue channels.

An integral part of our strategy is growth by acquisition. We see significant opportunity to expand the Company's core expertise by adding additional brands and expand businesses with a wellness focus. Over the past two and a half years, we've developed what we believe to be an understanding of certain success factors. We actively seek these out. We believe we have the ability to considerably grow volume and revenue within our existing operating structure.

Before I turn it over to Andrew to discuss in more detail our Q4 Fiscal and 2020 financial results, I want to thank our Board, our Management team and our dedicated employees for staying strong, effective and safe during these challenging times.

Andrew, please would you review the financial results?

**Andrew Patient:**
Thanks, David. Good morning, everyone.

I'll start by briefly highlighting our fourth quarter and year end results for 2020.

First, with respect to our most recent Q4. Total revenue for Q4 2020 was $9.1 million, up over 18% from the $7.7 million recorded in Q4 2019. Gross profit for Q4 ‘20 was $6.2 million versus $5.3 million a year ago, up but consistent 68%.

Selling and marketing expense was $4.4 million, which was down from the $4.9 million in Q4 2019 on lower revenue. Most importantly, EBITDA in Q4 ‘20 was $755,000 versus a negative EBITDA in Q4 ‘19 of $1.35 million.

Revenues reported in both the 2020 period represent revenues from both the supplements and the skincare businesses, while the 2019 period primarily represent revenues from the Dr. Tobias products as the acquisitions of All Natural and Maritime Naturals was not completed until late in 2019. Despite the impact of the acquisitions, Q4 2020 was considerably better for the DTI brand compared to a very difficult Q4 2019. The combination of lower revenues and higher ad spend in Q4 a year ago turned 2019 from a decent year into one that was not so decent.

David has explained the reasons for the poor 2019 and we were particularly focused on maintaining sales volumes during what is typically a slower period for the supplement business.

Revenues for the fourth quarter of 2020 were not impacted as expected by the movement of Amazon's Prime Day to late in the year. Promotion for the event translate in lower volumes than on similar promotional days in the past. While revenues in dollar terms were lower than expected, volumes remained encouragingly strong.

Going forward, Management expects selling and marketing expenses to remain at levels in the mid 40% range relative to revenue as we continue to strengthen our position in our primary marketplace and look to expand the brands to other markets.

For the three months ending December 31, 2020, the Company our net income of $523,000 or $0.01 a share compared to a net loss of $2.5 million or $0.05 a share for the three months ended 2019. I shall now turn to a brief review of the 2020 full year results.

Revenues were $40.3 million for the year ended December 31, 2020, up approximately 14% compared to $35.4 million for the year ended 2019. As with their quarterly revenue comment I made earlier, the 2020 results include revenues from Dr. Tobias as well as from the All Natural and Maritime skincare businesses. Revenues in 2019 were mainly from the DTI business.

Gross profit for the year ended December 31, 2020 was $28 million, compared to $24.8 million for the year ended 2019. Gross margin in 2020 was 69.5%, consistent with the 69.9% for 2019.

The Company incurred selling and marketing expenses of $18.4 million for the year end 2020, which is about 45.7% of revenue, compared to $16.9 million or about 47.8% of revenue for the 2019 year.

Ad spend is one of the most sensitive drivers for revenue, but it's not simply a matter of the amount of spend but rather the efficiency. While the Dr. Tobias brand continues to generate strong repeat sales, investments are also being made to attract new to brand customers and expand the offering to new channels and marketplaces. While this type of investment typically does not have an immediate material impact to revenue, as volumes begin to reach certain levels, growth generally accelerates.

Adjusted EBITDA, which removes non-cash stock-based compensation, acquisition and listing costs as well as FX, was $4.7 million for 2020, almost doubled that of 2019 when Adjusted EBITDA was $2.4 million. For the year ended December 31, 2020, the Company earned net income of $2.3 million or $0.04 a share compared to a net loss of $3.6 million or $0.10 per share for the year in 2019.

Again, results for the fiscal year indicate we're headed in the right direction as we continue to grow our top line, maintain the margins and ultimately grow EBITDA. We aim to continue this in 2021.

I shall now turn the call back to David.

**David Kohler:**
Thanks, Andrew. I want to take a moment before we move to questions to review the three pillars of our growth strategy for the year ahead. We focus in three areas. One, to continue to diversify our platforms. As we mentioned, we've added our products to multiple new portals, including most recently that are pet chew on the chewy.com platform. Believing we need to meet our customers where they are, we will continue to push this content. While Amazon is the clear leader, there are other options.

Secondly, we will continue to expand our product offerings. We have developed a robust product selection process, and we will continue to tune our product offerings and make product lifecycle management a priority.

Third, finally, we will continue to pursue growth by acquisition. We have an opportunity to be a consolidator and to use M&A opportunities to add stepwise increases in revenue and earnings in addition to the organic growth opportunities I've just outlined.

With that, I'd like to now turn over the Operator for questions. Operator?

**Operator:**

Our first question is from Antonia Borovina with Bloom Burton. Antonia Borovina, your line is open.

**Antonia Borovina:**

Good morning. Thank you for taking my questions. Firstly, you mentioned the challenges you had with Prime Day being moved this year. But I'm wondering if you could just provide a little bit more insight into what exactly the challenges were and whether, going forward, you still expect Prime Day to be a big sales event for you guys?

**David Kohler:**

Thank you for your question, Antonia. Happy to address that. Prime Day, for those of you who are Amazon consumers or Prime members, you would know that it's an event that used to not only drive new membership as they promote the joining of their Prime program, which gives you obviously access to fast deliveries on Amazon, but other things like music and video streaming as well. Prime Day has become the single biggest selling event day for Amazon on an annual basis.

As a vendor, there's a number of deals and opportunities to participate, specials, things you can run and promote. But as you might imagine, because of the velocity of the product sales on those days, the run up to that event is significant. You have to get additional inventories in place, you have to obviously have your plans and promotions all in place for the day. That event last year moved, I believe, three times before they finally settled on an October date. It was out of position on the calendar relative to what consumers were used to. It was promoted far less. It also started bumping into some of the more traditional fall events you might know of as Black Friday and Cyber Monday.

The event itself wasn't nearly as impactful as it had been in years past, and because of the lack of planning available because of the constant fluctuation in the events and timeline, companies weren't able to participate in the same ways. While it was still a good day in terms of overall velocity, it was nothing like it had traditionally been. More specifically, as we look to the year ahead, we hope that the Prime Day activity will be set and go as it had been in traditional calendar years.

We think we're all living in a strange and unusual time as we come through this pandemic, and we're still, frankly in Ontario, in lockdown and in other jurisdictions as well. I can't sit here today and tell you definitively that it will go in the summer as planned, but we are cautiously optimistic that Prime Day this year will happen in either June or July and that we will be able to see a more traditional lift in the business according to what we've seen in the past.

**Antonia Borovina:**
Okay. My follow up question is, have there been any changes to the market dynamics of the vitamins and supplements market on Amazon, which have impacted your business since you first acquired the Dr. Tobias product line?

**David Kohler:**
Well, the marketplace has changed considerably as you might expect, as recently as in the last 12 months. As you might imagine, with the pandemic, retail traffic was down dramatically. We saw a flood of new consumers coming into the online space, but we also saw a flood of suppliers coming into the online space. Companies that had been previously reliant on bricks and mortar retail were now more than ever before moving into e-commerce, including Amazon.

The space was crowded. You may have read that Amazon was struggling with inbound inventory traffic at their facilities, they started putting limits and roadblocks up in terms of listings and advertising and promotion.

The year we've just had was unlike any other. We don't expect that to continue. We do expect Amazon and other e-commerce portals to continue to evolve. However, people are now buying almost exclusively mobile versus desktop. I should reframe that. We saw a lift in desktop acquisition of product in the last year but given that people largely working from home, that wasn't unexpected. We're seeing a drift back to things like mobile. You have to be mindful of how your products are positioned and appear on a smaller screen and things of that nature. It's a constant evolution.

Amazon, as you may know, also continues to add new, through beta testing, new promotions and products and advertising opportunities. They are hardly static. To answer your question, we've seen many, many changes and expect to see more.

**Antonia Borovina:**
Okay. My final question is regarding some of your newer opportunities. You mentioned diversifying the business into new channels like the iHerb and eVitamins and Wal-Mart and then also, new product

launches. I'm just wondering how you're seeing those opportunities. Do you expect significant growth from those opportunities in the near term? What will it take to grow sales in those channels?

**David Kohler:**
Great questions. Candidly, we don't have a crystal ball, and what I mean by that is we recognize that Amazon is a massive front runner. They are a clear market leader. They have something in the mid-40s percentage of market share for e-commerce, specifically in the U.S. now. We see lots of other companies, retailers, sellers coming into this space. You may be familiar with some of the ones we talked about, eVitamin and iHerb, but there are many.

Other than that, it’s also about traditional retailers making strong moves into the e-commerce space, companies like Target or Costco, CVS, Walgreens. Part of their strategy is to improve their e-commerce position. We will continue to be vigilant and to see which ones we think are doing best, are best positioned to make the most sense for us in terms of our product offering.

We see, for example, Walmart.com as an up and coming player in the space. They've made changes recently to augment the way they reach their customers. We think that they're a contender and certainly someone to keep an eye on. We will place bets as we evolve to continue to expand into the channels that we think give us the best chance to meet our customers where they are.

**Antonia Borovina:**
Okay, thanks.

**Operator:**
The next question is from Mike Woods, a private investor. Mike Woods, your line is open.

**Mike Woods:**
Hi, Mike here. First of all, I became an investor through Canaccord. I'm surprised that Canaccord may not be on this call, or if they are, they're not asking any questions. But, first of all, I'm impressed by the results that you have had throughout the year. But firstly, why is your revenue flat from quarter to quarter throughout this year? Your revenues are obviously pretty good, but they're trending actually downwards from Q2 through Q4.

**Andrew Patient:**
I can take that, David, if you'd like. It's Andrew.

We did allude to a little bit through the narrative, but we can break that down. The business doesn't have a ton of seasonality. Although, the supplements business specifically, Q1 is typically the most productive period in the sense that a lot of consumers come into the new year with a get healthy, and it's a new year, new you approach and it's actually called that on Amazon. That is typically a quarter you take advantage.

When came into 2020, because of the Q4 '19 difficulties, and that was related to the way Amazon basically made you pay now for spaces on their site that otherwise you were able to get with just ratings and organic growth. The 2020 Q1 was a good period for us, but it's a recovery from 2019 and we were starting to really get our volumes back. Then, as you know, COVID hit late in that quarter and into Q2 and so that really muted the results for the quarter.

Now, that's not to say we would have expected growth quarter-over-quarter anyways, but we certainly had higher expectations for 2020 than what actually we saw. That is a combination of a number of things, some of the operational challenges, the fact that we weren't able to take advantage of some of those promotions and a lot of other factors. But the main thing was that we wanted to avoid some of the challenges from last year that really gave us a bad position going into the year and we avoided those issues. We feel that 2021 now is set up to be a very good year for us.

**Mike Woods:**
Okay, thank you very much.

**Operator:**
This concludes the question-and-answer session. I'd like to turn the conference back over to Mr. Kohler for closing remarks.

**David Kohler:**
Thank you, Operator, and thank you, all, for joining us on this call. As mentioned at the beginning of our call, the transcript will be posted on our website. You may contact us through that website at any time if you have questions or reference to the transcript at your leisure. We look forward to communicating with you again soon as our Q1 results will be out shortly. Operator?

**Operator:**

Thank you. This concludes today's conference call. Thank you for participating and have a pleasant day.