Mimi's Rock Corp.
Year End 2021 and Q1 2022 Results
Conference Call Transcript

Date: Tuesday, July 5, 2022

Time: 11:00 AM ET

Speakers:

David Kohler
Chief Executive Officer

Andrew Patient
Chief Financial Officer

Operator:
Welcome to the Mimi's Rock Corp. Year End 2021 and Q1 2022 Results Conference Call.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to David Kohler, CEO, with Mimi's Rock Corp. Please go ahead.

David Kohler:
Thanks very much, (Inaudible 00:44).

Good afternoon, everyone, or morning, depending on your time zone. Thank you for joining us on our combination 2021 Year End and Q1 2022 Results Call.

It's obviously unusual to combine a year end and a Q1 update. This is occurring today because of delays in filing our year end, which has created an overlap in our reporting cycles. In fact, as we speak, we've now reached the conclusion of the Q2 period, so we'd not only like to update you on our filings and give some indication of how things are currently trending, to lead off today, it makes sense for me to take a moment to explain the reasons for the delay and what has specifically happened that caused us to miss our original filing deadlines. Also, noteworthy, was that our results of those misses on our required documents we were issued order a Cease Trade Order, which has now placed in—in it's been in effect until now through the OSC.

As we've explained in the press release that we published, our failure to file on time was the result of additional procedurals required to provide assurance on inventory levels at third-party locations. These procedures were not considered necessary in prior period audits. However, as part of a regulatory review by the CPAB, which is the Canadian Public Accountability Board, our auditors were asked to perform additional work in 2021 to verify inventories held at third-party locations. As the Company holds the majority of its inventory at Amazon warehouses, this was a significant challenge.

To be clear, the issue was one of verification, since the inventory could not be physically observed, rather than anything to do with valuation or accuracy. There were no adjustments to the financial figures as a result of these additional procedures.

As you may know, traditional inventory counting at period ends has historically been used to confirm the amount and value of inventory at the end of a period. But, unlike in the bricks-and-mortar world of yesteryear, where a crew of people would physically account for the inventory after hours, in an e-commerce ecosystem, inventory moves and transactions are occurring 24/7, 365 days a year, and, accordingly, levels ebb and flow and are difficult to nail at a specific moment in time.

To be clear, we have a tight handle on our inventory. We know exactly how much we have in production, exactly how much is in transit and how much has arrived at the warehouses of our e-com partners. We can track and see the number of units we have in the system in real time and we have sophisticated inventory tracking protocols to ensure we know what's happening with our goods.

Despite this, as Amazon does not provide an audit report on their own controls, additional verification steps have to be taken. In order to independently support existence of third-party inventories, we had to reconstruct historical inventory reporting relying only on purchase orders, shipping manifests, payments and collection information, etc., such that we could verify our inventory levels without counting on our trading partners' participation. This is now done, but the process took time. Ultimately, both the auditors and the regulators were satisfied with the methodology, which cleared the way for the approval of the audit.

This disruption, as mentioned, did not require any restatement of previously released financial information. It did, however, cause Mimi's Rock's year end filings to slip past the early May deadline. Accordingly, the OSC halted our stock until the reports could be filed. Q1 was also held back until year end had been released. These are both now filed, we are up to date, we are in good stead with the OSC, and we're literally waiting for the administrative process from the Exchange to see the trading resume, but there's nothing further required from our part, so we expect that to happen at any moment.

We'll return to the results we filed Monday in just a moment, but first I'd like to take some time to share some colour on the ongoings at Mimi's Rock over the months since we last spoke with you. I'd also like to add a bit on what's happening in the broader e-commerce ecosystem, as well.

As most of you will know, Mimi's Rock owns and operates a number of online brands sold in various jurisdictions around the world all via e-commerce. We have brands which are in the wellness space and include vitamins and supplements for human consumption, as well as skincare products. We sell these items in Canada, the United States, multiple European countries, as well as Australia, through wholesale partnerships in South Korea, and now recently China. Our most recent market entry is Singapore, where we entered in May.

Our strategy since we began the business was to scale through a combination of organic growth and strategic acquisitions, as well. Recently, we've been focusing on organic growth and opening new portals in new geographies as the world has become more e-commerce-focused.

As you may recall from press releases, in the fall we announced the formation of a Special Committee of the Board of Directors. This committee continues to work with the Board, Management and Bloom Burton to seek opportunities to enhance shareholder value. We've been working together to assess restructuring the balance sheet on a non-dilutive basis and looking at merger and acquisition opportunities both north and south of the border. We'll update our stakeholders, as appropriate, as this file evolves.

Moving to Q4 and our year end filings, we reported that Q1 was a lacklustre period. This is due, in part, to a number of issues.

Firstly, we experienced the typical seasonal slowdown in product sales velocity, though they were slightly worse than expected due to the overall stalling broadly seen in the economy.

Secondly, we also had a couple of products temporarily unavailable to sell via Amazon FBA, which stands for Fulfilled by Amazon. These also hurt our sales velocity. On these relatively rare occasions where products are temporarily unavailable for sale by FBA, we shift to an FBM model. FBM means Fulfilled by Manufacturer. This is something we do provisionally in those rare cases. As you would expect, FBM is slower than FBA, so it can cause sales to soften, as consumers who are used to ordering via Prime memberships and getting next-day delivery sometimes the client FBM option, which can see delivery taking several days. We've taken many steps which help mitigate these rare occasions and disruptions, like multiple pack sizes and product bundles, things of that nature, and these are proving to be super-effective, but, unfortunately, we had some days in Q4 where we did have some important listings diminished for a number of days. This contributed to the slowdown.

We also had to absorb a number of one-time, non-recurring expenses in Q4, which were associated with the process we undertook via our Special Committee of the Board. The review in contemplation of structural and M&A opportunities added some legal and accounting fees which were charged in the period.

As the calendar turned, we saw a general recovery and uptick in revenue. This was driven by aggressive New Year period promotions and was buoyed by a significant number of price increases we took across our lines. We'd seen inflation creeping into our supply chain and decided to get ahead of that. We're super-pleased to see the strategies have been working. Strong volumes at new higher price points have begun to have a material impact, margins are improving, sales are up, and Q1 was a great bounce-back. Q2, which, as I said, just recently finished, looks even better at this juncture.

While we were unhappy with the results in Q4, we've seen strong improvements since then, with revenues growing in Q1 by over $1 million from the previous quarter to levels similar to Q1 of 2021, with Adjusted EBITDA coming in 255% higher than Q1 of 2021. These material improvements in profitability were driven by operational efficiencies and the aforementioned price increases which we took. Again, these price increases didn't negatively impact our sales, and, in fact, saw us reduce our COGS as a percentage of sales overall, thus producing 2.5 times last year's EBITDA on similar volume.

We've shifted away from discounting and are selling our products at or close to list price. We have, instead, been more focused on advertising. We are seeing increases in basket size and gross margin as our sales prices continue to climb, while providing a nice shield from the inflationary pressures which are everywhere.

Earlier this year, we conducted a full strategic review. It involved evaluating growth and expansion prospects, retrenching on certain initiatives, a full pricing and product sizing review, and an operational end-to-end critique. I touched on the price increases executed. We also made some adjustments within our marketing group to inform some changes to our off-Amazon advertising strategies, which, in turn, has allowed us to make some difficult, but appropriate, changes. These result in an annualized savings of approximately $400,000 per year. These changes have been executed, and going forward we expect to realize these savings. We also have some additional changes planned for the quarters ahead, and we'll be making those announcements as we implement them and expect that these shifts are focused on the improvement of the financial performance of the Company and optimizing the bottom line.

As we enter a period where the macro-environment is seeing headwinds, in terms of inflationary pressures, interest rate increases and consumer pullbacks, we're pleased to see that we've been able to take price increases and improve our profitability.

We also recently announced that we'd entered the Chinese market and we were excited about the prospects. While our enthusiasm remains unchanged, we have seen our plans stalled by the recent closures of the Port of Shanghai. You've likely read about China's zero COVID mandate and the measures they've taken to control the spread. The port in Shanghai was, unfortunately, the entry point for our products, so this situation has delayed the anticipated ramp-up in that market, but we're still confident it will be a material and meaningful channel for us before the end of this year.

You may have seen or read about how there's been a cooling off, in general, for many e-commerce-related stocks as the economy has re-opened and consumers are starting to return to bricks-and-mortar retail. Obviously, this was expected, but we believe the retail environment is forever changed. We see good evidence that our brands have salience, and, in particular, our core brand, which is the Dr. Tobias line in the United States, continues to sell well in that most crucial marketplace for us. As Andrew will cover shortly, as we've focused on in-market sales improvement and profitability, we've seen particularly promising results for our core brand in our primary market, in the Dr. Tobias line in the U.S. Price increases and prudent management of SG&A have positioned us to continue the trend we've seen moving through Q1, and we expect to report an even stronger Q1 in our next release.

Now, I'd like to turn it over to Andrew to provide us with a view of the financial results.

Andrew Patient:
Thanks, David.

As we're covering two financial periods today, I'll start with the results of the fourth quarter and Full Year 2021.

As David discussed earlier, 2021 was a challenging year, as COVID continued to put pressure on the supply chain globally and impacted the Company's ability to execute.

Revenues for the year ended December 31, 2021, were $36.7 million, compared to $40.3 million for the 2020 Calendar Year.

Since the beginning of the pandemic in early 2020, the Company's had to continually make adjustments and react to challenges in the supply chain and within the online marketplaces. The Company has successfully navigated these issues and become more efficient in the process.

In the first and second quarters of 2021, heavy promotions meant that brands had generally higher volumes, but at lower margins. A conscious reduction in the amount of discounts in the second half of 2021 resulted in lower volumes, but increasingly higher average prices. As a result, during the Full Year '21 period, the brands were able to offer less promotional pricing and ultimately maintain an even improved volume in the Q SKUs.

Revenues for Q4 2021 were $8.6 million, compared to $9.1 million for Q4 2020.

While the fourth quarter is typically a weaker period for the business, Q4 2021 was additionally impacted by our change in advertising partner and outages for our top two products, as David discussed earlier. Inability to guarantee supply on some products also meant promotions had to be limited or abandoned.

The Company's skincare businesses, All Natural Advice and Maritime Naturals, were particularly affected by supply chain and market challenges in 2021. A decline in profitability in the Company's skincare businesses in 2021 resulted in adjustments to forecasted performance for future years. Key assumptions used in the forecast include revenue growth and profitability levels. While Management considers these brands to still have considerable upside, forecasts were based on historical growth expectations. Taking into account these latest developments, the recoverable amount was determined to be lower than the carrying value for the All Natural Advice and Maritime Naturals CGUs, or cash generating units. As such, an impairment loss was recognized with respect to goodwill allocated to the All Natural Advice and Maritime Naturals business units and a non-cash impairment charge of $4.2 million was recognized in 2021.

The majority of the issues related to product availability abated entering 2022, when the consistency of supply in Q1, along with uninterrupted listings, led to a much stronger sales momentum.

Revenues for Q1 2022 were $9.5 million, compared to revenues of $9.8 million for Q1 2021.

While revenues in the 2022 period were lower by almost $200,000, overall, compared to 2021, gross margin was actually higher in the 2022 period, as the Company focused on increasing the average revenue per unit by limiting the amount of promotional discounting. Gross margins in Q1 2022 improved to 72.7% from 68.6% in the same period last year.

Unit volumes have begun to increase, while selling prices have been higher. In addition, a number of price increases on various products in late '21 and Q1 2022 has allowed for further margin expansion, including from some of the top-selling products, and revenues have continued to show growth.

The Company's DTI supplements business performed better in Q1 2022, compared to Q1 2021. However, the Company's skincare business continued to have challenges driven by supply chain and market issues, similar to those experienced since the COVID-19 pandemic began. Management is optimistic these issues will subside going forward and expects better performance during the remainder of 2022, compared to 2021. Top-line growth has been encouraging since acquisition of the skincare businesses, with the expectation that the U.S. market will become a more meaningful contributor for both skincare businesses, along with certain European and Asian markets.

Looking forward to expectations for Q2, we have seen the momentum generated in Q1 continue so far. In general, prices are higher and margins are better. So far, we have not seen the typical drop in momentum that we see in Q2, and are excited as we enter Q3, with Prime Day just around the corner.

Touching briefly on the Company's balance sheet and cash flows, we saw cash flows from operations improve appreciatively in Q1 2022, compared to the prior quarter and the same period a year ago. We have continued to make scheduled principal repayments on senior term debt, which currently stands at $8.3 million, exactly half the amount of the debt at the time we acquired the skincare businesses just two-and-a-half years ago. With our current level of operations and cash flows, we have reduced the long-term debt to a very manageable level and are confident we will continue to meet all obligations as they come due.

I shall now turn the call back to David.

David Kohler:

Thanks, Andrew.

Obviously, we're speaking to you after Q1 is filed and Q2 is completed. So, while Q4 and the year end weren't exactly the results we'd wished for, I'd be remiss if I didn't give you the insight that things are much, much better now. We've seen EBITDA grow and we're seeing better performance in terms of revenue, unit prices following significant price increases, and profitability.

We continue working to execute our strategic plan, which is the long-term range of $100 million in revenue and $20 million in EBITDA in 2024. This plan is expected to be achieved through a combination of organic growth, which includes new product launches, as well as new channels and portals, along with strategic M&A. Please do look for some exciting announcements in the weeks ahead on these fronts.

Shifting gears, we note that it is important to our organic growth plans that we have the ability to launch in new markets. Canada is an excellent example of the a new geography where we're succeeding. Our Dr. Tobias brand was launched in Canada in late 2019, sales grew rapidly, and in the first year continued doing a fairly meteoric trajectory. This model and success gives us a solid roadmap to follow as we continue to pursue new markets.

I mentioned that most recently we've added Singapore to our list of markets. This is an Amazon marketplace. Despite the fact that Singapore only has approximately 5 million residents, Amazon is using it as a market from which to fulfil Malaysian orders, so it has the potential to become interesting and meaningful very quickly. Following the Canadian roadmap that we've established, we believe we can enter this market and be very successful in the short and medium terms.

We've also seen continued growth in our skincare brands in the U.S., but we haven't seen growth in the Canadian skincare business of late. The uptick in the U.S. market is extremely encouraging, currently averaging over 100% growth year-over-year on the All Natural business in the United States. In 2021, for context, we were selling a little over $2,200 per week. That is now over $5,000 per week, and continuing to grow. On this trajectory, the revenue should be material in the near term.

Just before we open for questions, I want to expand on my earlier comment regarding our strategic plan for growing the business to $100 million in 2024, with $20 million in EBITDA.

Firstly, we continue to diversify the platforms on which we sell. As I noted, we've added products and multiple new portals in the last year. We'll continue to do so in the periods ahead.

Secondly, we'll continue to tune our portfolio and ensure we optimize and leverage the use of our hero products, as well as act in a nimble and expeditious way as consumer demand continues to evolve. This includes taking price increases where practical and cutting costs where possible. We invite you to stay tuned in the months ahead and expect to hear significant announcement on all of these fronts.

With that, I'd like to now open the line for questions, please, Operator.

Operator:
Thank you. we will now begin the question-and-answer session. We will pause for a moment as callers join the queue.

The first question comes from Antonia Borovina with Bloom Burton. Please go ahead.

Antonia Borovina:
Hi, guys. Thanks for taking my questions. So, maybe just first, to clarify, regarding the inventory auditing, it sounds like the processes are now in place and everyone's satisfied, so I just want to get your take, because you don't anticipate this issue arising again and delaying any other filing.

Andrew Patient:
Yes, that's correct. Hi, Antonia, it's Andrew. As sort of the, I guess, the lead on dealing with the audit, I can say it's been quite a challenge. It was difficult, because the issues presented were ones that we were sure other companies experienced that have inventories at e-commerce providers, Amazon, in particular, where they—with the FBA model, they manage all your inventory you've effectively drop-shipped to locations, they manage the distribution throughout on a national level in a bunch of different places, and, really, it's impossible to physically observe that inventory at inventory count time, which is sort of a required step.

In a lot of cases where you have a third-party service provider, that provider will give a controls report on their own processes, which you can rely on for audit purposes. Amazon does not provide that controls report, which meant that we could not rely on any Amazon reports for purposes of the audit. So, effectively, we had to work around that system and try to prove all our inventories that were there without using Amazon reports, which was quite difficult. This was the first time we've encountered this. This is sort of a new area that's developing as a result of having material amounts at third-party warehouses when that provider doesn't provide a controls report and it's impossible to physically observe.

We were able to resolve that through a whole bunch of other procedures, as sort of Dave discussed through his commentary. Ultimately, we do feel this is a one-time issue. We have now effectively created all kinds of new internal processes to be able to prove inventory without using Amazon reports, which obviously is not ideal, but we've obviously strengthened our procedures as a result and don't expect it to be an issue going forward. This was sort of a one-time thing as a result of sort of changes in the marketplace and auditing standards.

Antonia Borovina:
Okay, great, that's helpful. (Multiple speakers 21:42).

David Kohler:
If I could maybe tag on just one quick comment, just from more of, I guess, a layperson's perspective, because when you start hearing things about inventory verification, it gets a little unsettling, but I can assure you that we have really ironclad inventory counting and inventory control systems. The challenge was, as Andrew was just illuminating, is trying to prove the value at a point in time without the use of any of Amazon's reports. As you can imagine, in a 24/7, 365 e-commerce world, you're trying to chalk a line at a moment in time. You know how much you've sent in, you know how much you've sold, you know how much has been recovered, you know if you have returns, it's all very clear, and given that we have controls on both ends, we always knew. The issue is when did that unit sell or ship, when are you recognizing the revenues, and whatnot. So, to Andrew's point, we built new systems and controls that are now in place, that we can use to monitor going forward, or to reaffirm what we already knew.

I think, importantly, there was no material change to anything, there were no financial restatements as a result, and I believe, as he also noted, there's no prospect for this recurring in the future, because now the system (inaudible 22:57). Although it seems like it's one of those evolutionary things in the accounting practices around e-commerce, we are far from the only ones who have this sort of issue. I think it's just the new wave of controls that will exist, and we're comfortable that we now have them all well in hand.

Antonia Borovina:

Okay, thanks, and then my next question is regarding your revenue. They've fluctuated quarter over quarter. There have been a few different factors, the discounting, supply chain. You did mention that the supplements, the Dr. Tobias business, was better in the first quarter 2022, the skincare continues to struggle due to supply chain, but I'm wondering if you can just maybe quantify it and let us know what is the growth trajectory on a revenue and volume basis for those two major business lines.

Andrew Patient:

Yes, I mean, that's sort of a step, we don't typically do that. I can give you sort of an indication, I guess, directionally.

You were correct, I think, as we tried to articulate, we have sort of two main businesses, supplements and skincare. The skincare has two brands that are quite similar, but have different sort of aspects, as well. But, both of the skincare businesses were not as resilient to some of the challenges as the supplements business, mainly because I think it's more of a luxury spend as opposed to sort of a day-to-day sort of need, with the supplements business, and I think it's going to take a little bit longer. We are seeing some good signs there. Maritime, in particular, because it was a small brander, is a bit more difficult. We are seeing some great things happening in the U.S. market, which we're very excited about, particularly on All Natural Advice.

But, overall, as we also talked about, we did take an impairment loss in the skincare businesses as a result of the change in outlook to those businesses, and while we still feel that they will recover, they're going through some challenges right now, and so we can't prove beyond a reasonable doubt that we can recover, and so we sort of have to take an impairment charge right now, and that's as a result of both what happened in 2021, and when we're doing the audit, you are looking at results for 2022, as well. They just have not—they've recovered, but not to the level we expected them to.

Q1 2022, for the skincare businesses, were their best ever quarter. It's high bar, they were never going to reach that level, so they were down. Q1-over-Q1 skincare businesses were both down quite significantly, to the level of about 25%. That was pretty significant, because, obviously, it's a large piece of business, but, more importantly, we were driving that with promotions and discounting last year, so we were getting the high revenues sort of—I'm going to say fictitiously, because we were sort of super-charging, we had a lot of promotions. We weren't making a lot of money. So, it took a while to sort of retrain our customer base. I think we are there. We got the average unit price up. The volumes are not quite back yet, but they are improving. It's going to take a while to sort of turn that around and turn it into more of a higher-margin business, but we are on our way there. But, that was down quite significantly year over year, and we expect that delta, as we go forward in quarters, to lessen, the difference from last year to get less and, hopefully, at some point later this year, it will be having better results than it did same period last year.

In terms of the supplements business, that was up in U.S. dollars. As you know, most of that, the supplements business, is U.S.-based. It's primarily a U.S. market. Although we have expanded into Canada and into Europe, as well, and into some other markets, most of it is U.S. The exchange rate was relatively similar, I think it was within a half a percent Q over Q; but in real dollars, in actual dollars, and in Canadian dollars, the DTI business was better. I believe it was around 6% better in Q1. However—

Antonia Borovina:
Six percent, sorry, on a revenue or volume basis?

Andrew Patient:
On a revenue level, okay?

Antonia Borovina:
Yes.

Andrew Patient:
However, it's sort of a tale of, you know, the individual months within a quarter. Because, typically, what happens with the supplements business is January is your best month. It's a new year, new you, everybody generally wants to start buying vitamins. Then, February's a short month, but softens, and then March, it could go either way. We've actually seen a little bit of a different trend within the months, such that sort of volumes and revenues were improving throughout the quarter. February was shorter, but March was considerably better than January, which is unusual, and that momentum has continued into Q2, which is why we are excited. We've got Prime Day coming up in a couple of weeks.

But, really, we were concerned with taking some price increases, that we were going to see some reduction in volume. We haven't seen that. We've seen, actually, the opposite. We've seen strengthening in volume, as well as the increase in margins. So, that's very positive for us.

Antonia Borovina:

And if I may, just with the skincare business, you did mention also some supply chain issues. I'm just wondering have those been resolved, or is that—

Andrew Patient:

The supply chain issues aren't typically massive, but because of the fact that the skincare is in a bunch of different markets and sort of it has—it's more reliant on a smaller set of products, what happens is, when you can't be confident that you can get enough supply, then you can't plan your promotions very well at all; meaning, that if you want to run a sale or a discount, or do some kind of a lightening deal, or something like that, if you're not sure if you have the inventory, you can't do those deals. So, it really limited our ability to sort of promote the brand. Again, we were doing, overall, less discounting, but promotions and the sales period are still an important part of the overall process to keep the momentum going, but when you can't plan it properly, it really hinders your ability to keep that momentum going. So, that was the challenge. It was a bunch of smaller disruptions that just allowed us to have almost no momentum at all in Q4.

That has helped—or improved, I should say, quite substantially in Q1 and Q2. It's still happening on the skincare, not as much, and we feel that as it lessens—really, it's twofold. One is the supply chain, but the other one is just on Amazon. Amazon goes through these periods of sort of, for whatever reason, doing sort of sweeps and checks of listing requirements, and things like that, and they'll sometimes delist your product for a period of time. There's little things like that, that continually ding the momentum, and we've had those, and they are getting better. So, we feel, overall, skincare is improving, just not as fast as supplements is, but supplements is a very positive story for us.

Antonio Borovina:

Okay, and if I can just finally, regarding your sales and marketing spend, it jumped in the first quarter 2022 to the mid-50s, and previously it's been in the mid- to high 40s, so just wondering is that being driven by a more competitive environment on Amazon, or due to your transition to the new marketing partner, or maybe both; and then if you could just provide maybe commentary on the new marketing partner and what they're able to do that your old one wasn't doing.

Andrew Patient:

Let me try to answer the first part of that, and then I'll pass it to Dave to discuss more about the marketing partner itself.

In terms of the spend, you're right, it was higher, quite a bit higher, in Q1 2022, percentage-wise. Part of that is, you know, as your revenues are lower, which they were—I mean, DTI, again, they were higher, but overall, we were lower. As your revenues are lower, you can't maintain that percentage. You sort of have to have a base level of promotion and marketing.

And, again, I just want to reiterate what goes into selling and marketing expenses is a combination of our discretionary spend, i.e., what we decide to spend on banner ads and click-throughs and keyword searches, and things like that, versus the transaction fees that Amazon actually charges you to, effectively, deliver and fulfil your product. All those charges go into the selling and marketing expense. Approximately two-thirds of the selling and marketing expense, just right around two-thirds, about 33% of that, of the revenue, is Amazon fees, and those have ticked up slightly. Amazon, as you know, is just a public company, like we all here. They've got to make revenue, they've got to keep charging more in order to keep pushing that top line, so they keep taking, you know, $0.25 here, increasing listing fees. They're not significant, but they do have an impact, a point or two here and there.

Then, on top of that, we have a budgeted spend, and so you can't continually go, "Oh, we're not selling enough, reduce the spend," you have to sort of stick to your strategy and your goals, and ultimately, sometimes, the sales just take a little longer to percolate up. Some of those investments that you're making don't generate in the same quarter, but, as we've sort of alluded to, a bunch of times here the strategy that we've taken with the ad spend, particularly with the new partner, we are very happy with their performance so far. Since they started back in October, they really didn't get going until November, a tough period to get going, but they've almost done better performance-wise. On the metrics that we measure things, like your return on ad spend, your ACoS, your overall cost to spend, and things like that, are doing much better, and we have seen the momentum continue, and that's really the kind of proof in the pudding that these things are not just built for today's sales, it's built to keep the momentum going, and we've certainly seen a real improvement in the overall momentum. So, yes, we're spending a little bit higher.

I think, as the revenue line starts to improve, that percentage will come back down into the 40s again. It's just you can't get it in the 40s at certain levels of revenue. Once it gets to a certain level, you kind of have to have a base level of ad spend. So, that's where we were for this particular quarter.

Dave, do you just want to maybe talk a little bit more about Teikametrics there?

David Kohler:

Yes. So, as a brief recap, that some of you who have been on calls previously might know, that we have been, since our inception, using third parties for AI support for certain activities that we do on Amazon, so just maybe give just a very 30,000-foot view of that.

Keywords, for example. So, when a consumer goes on Amazon and types in something looking for across the top of the banner, like, fish oil, for example, those are what are called keywords, and keyword searching will lead you to certain postings. There's actually kind of a bidding process for the placement of your products, and these are all managed through AI, and the reason we do that is because, A, it's constantly evolving. It's a real-time dynamic marketplace for these biddings, it happens across multiple time zones, and it's happening in real time at massive quantities. There are a number of third-party providers for these AI services to help you optimize and tune your advertising on Amazon, and we've been using those since our inception, as I said.

You may recall a few years back, we changed suppliers of that service, because we were unhappy with our then provider. We had a good period, where we felt good about it and things had been progressing nicely, and then back in 2021, the partner that we had engaged was actually sold. Whether that led to perhaps a slight lack of focus, or some change in staff and what have you, I'm not really in a position to comment on, but I can tell we noticed a distinguishable drop in attention to our account, and to the performance of the account, in particular. So, we took on, in the summer of 2021, an RFP process whereby we engaged with half-a-dozen different companies in the space that provide this sort of thing, went through a protracted selection process, and ultimately landed on a new partner, which came onboard in the fall. They have subsequently done a terrific job. We monitor it literally daily. We meet with them weekly. We go through these things in agonizing detail, to make sure, because of the importance of it, that they're fully on top of our account and the things that are being done.

Unfortunately, as we transitioned away from our prior partner, that lack of focus I mentioned seemed to become even more magnified, as, I guess, they knew they were losing the account, so we did see a bit of a slowdown during that transitional process, which started in the early fall, but they were now our new partners, fully up and running in the middle of Q4, and as noted, we're seeing really terrific results, so we're very pleased about that. We now feel that we've got that right partner.

As a sidebar to that, this particular provider is also well positioned in terms of their software in the Walmart ecosystem, and we've seen of late interesting upticks on our Walmart business, as well. So, we're excited about the prospects for growth there, in concert with what's happening on Amazon.

Antonia Borovina:
Great, thanks for the added commentary.

Operator:
As there are no more questions from the phone lines, this concludes the question-and-answer session and I would like to turn the conference back over to David Kohler for any closing remarks.

David Kohler:
Thank you, and thank you all for joining us on the call.

We will be putting a transcript of this call on our website, so you may contact us through that website at any time, at www.mimisrock.com, or certainly feel free to reach out to me personally with any other questions or follow-ups you may have.

We look forward to communicating again with you soon. Thank you all, and have a terrific day.

Operator:
This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.