MIMI'S ROCK

Mimi's Rock Corp.
Q2 2022 Results Conference Call Transcript

Date: **Tuesday, November 8, 2022**

Time: **11:00 PM ET**

Speakers: **David Kohler**
Chief Executive Officer

Andrew Patient
Chief Financial Officer

Operator:
Welcome to the Mimi's Rock Corp. Third Quarter 2022 Results Conference Call.

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

David Kohler:
Thank you very much. Good morning, everyone. Thank you for joining us on our 2022 Q3 results call.

As you know, we filed our third quarter results on Monday, the 7th. I will turn to Andrew, our CFO in a few minutes. First, I'd like to offer some color on the results we've released. Most importantly, our financial performance represents the continuation of our quarter-over-quarter as well as year-over-year improvements. Revenue and Adjusted EBITDA continued to grow and outperform prior years and periods.

As per our release, we're pleased to report a 19% growth over Q3 2021 as well as over 500% growth in our Adjusted EBITDA for the same period. The performance trend is continuing. We're excited to say we're stacking quarter-on-quarter, and we are well on our way to a record year.

Some more important context to provide. We are seeing this level of growth and performance despite the signs that the Amazon marketplace is more competitive than ever. For those of you who follow Amazon or stay abreast of the trends in e-commerce they know that cost per click rates are up 23% in Q3 of this year. Those are the prices paid for placements related to winning customer searches. For instance, if a customer types in fish oil, the company which has bid the highest price on that term will be the first one presented as an option to buy. What this means is that the competition for consumers on the Amazon marketplace continues to be robust.

Despite this dynamic, Management is happy to report the strategies we've undertaken have and continue to work well. Despite increased competition, we're winning customers and seeing our business grow.

Q3 was obviously appreciably better than the same period last year. This has been the ultimate measure of how the efforts we've undertaken are impacting the business. The four Ps of traditional marketing are very much in play in the e-commerce world, product, price, place and promotion are all crucial. We've taken careful aim on each one of these areas.

While we've always driven to produce tremendous products, and have earned loyalty from our customers as is evidenced by our subscribe and save numbers, we have additionally been hyper focused this year on price, place and promotion. Following a comprehensive strategic review last year, we started taking selected methodical price increases, while also shifting gears on the type and number of online promotions we run. The team has been utilizing myriad different promotional search-driven opportunities to continuously evolve and to take advantage of the ecosystem in which we operate.

The results are clear. We are seeing our price increases have stuck, and our margins are, therefore, increasing significantly. This is the strongest quarter we've had, not only in our trailing 12 months, but even if you look back to the year prior as well. Andrew will dive a little deeper into the financial results released shortly, but I want to point out that our sales are up, our margins are up, our Adjusted EBITDA is up, both sequentially and year-over-year. While it is early in Q4 at this time, I can advise you that the trends are continuing.

As touched on in previous releases, we've taken steps this year to streamline operations and are focused on reducing our SG&A line. We have made strategic decisions which are now having impact. They will also continue to bear fruit in the periods ahead. Andrew will speak to some of these points and some onetime costs momentarily, but our trends are very good.

Despite the slowdown, driven in part by interest rates, that we are seeing in our broader economy, our business is gaining momentum. Previously, we reported that due to the challenges in the Chinese marketplace, we've yet to see any meaningful materialization of the sales volumes we expect. I'm happy to report we are now starting to see movement in sales in that market. While they have not yet become material as it's only been a couple of months, we are seeing orders coming in and ramping up.

I expect that as soon as Q4, meaning now, we will start to see the Chinese market start to contribute revenue and margin. As a reminder, we have a store set up on Tmall and have a distributor with whom we are working. We remain very bullish that the Chinese market will be a robust one for us. These impacts are now starting to materialize and are completely incremental.

We also saw somewhat of a bounce-back quarter for our skin care brands, aided by some special product placements during event days, we enjoyed a lift in both of these lines. Noteworthy is that we're also seeing traction in the European markets and Australia, in particular, for the All Natural Advice range of products. These off-continent sales are important as we continue to seek to diversify our channels and portals.

The U.S. is still our clear number one market, but additional distribution gives us upside for our brands as well as greater security and diversity. At the end of Q3, we saw a relatively sudden and significant move in the FX rate on the U.S. dollar. Thus far in Q4, the high rates have held. As we've begun Q4, we find ourselves in a position of having some tailwinds in our business.

Revenue for the year is up. Margins are up. Costs are down. We have more than adequate price increases to offset any supply chain cost inflation we've seen. We see a better than forecast FX rate ahead. All of these things set us up to finish the year very well indeed.

Further, those of you who attended our Investor Call following our Q2 release may recall I spoke about the important momentum within the Amazon ecosystem. Our sales velocity contributes to the best seller rankings, which impacts searchability and ultimately, organic sales. Velocity is crucial, but it can sometimes throw a seller into a downward pricing spiral. While we've not just found momentum, but we've maintained it now and expect to do so in the future, higher prices, strong velocity, high seller rankings and growth. Each is additive to the others, and Management believes we have achieved strong enough momentum to carry us well into the periods ahead.

With that, I'd like to turn it to Andrew to provide with a view of the financial results.

Andrew Patient:
Thanks, Dave.

Q3 2022 reflected the continued uptrend in the Company's core business with both revenue and Adjusted EBITDA at the highest level since the beginning of the COVID-19 pandemic. Revenues in Q3 of '22 were $10.2 million compared to $8.6 million in Q3 '21, an increase of 18.6% over the prior year period. Adjusted EBITDA, which removes the impact of foreign exchange and noncash stock-based comp was $1.2 million for Q3 2022 compared to just $0.2 million, $200,000 for the same period last year.

The solid performance was despite some onetime G&A costs in the period, meaning Adjusted EBITDA might otherwise have been $1.4 million for the quarter. The Company's third quarter also outperformed the second quarter, leading to the Company's best ever Q3 performance in terms of both revenue and EBITDA. Same currency revenues were similarly strong over the last two quarters for the DTI business, as price increases and lower overall discounting resulted in considerable increases in the top line.

Foreign exchange began to play a role late in the period, but the impact to reported revenues was minimal in Q3. Revenues in the 2022 period were also achieved with higher overall average prices. Thus gross margin was higher as the Company focused on increasing average revenue per unit by limiting the amount of promotional discount.

The Company's skin care businesses, All Natural Advice and Maritime Naturals, saw considerable improvement in top line sales during Q3 2022, boosted by a strong Prime Day event in July. Participation in these top traffic days are important and key to attracting new customers to the brand.

Gross margin for Q3 2022 was significantly improved at $7.8 million, which is 76%, compared to $5.9 million or 68.1% for Q3 of '21. Gross margin has improved despite headwinds from foreign exchange as a result of both increase in list prices and a disciplined approach to promotions. Online advertising in the period continued to remain higher than historical levels, mainly is a function of ongoing campaigns, which are shown to drive these higher volumes.

Advertising spend in the third quarter of '22 was focused on key promotional days, including Amazon Prime Day in July as well as towards driving efficiency and spend on top products. As top line revenue increases, we expect selling and marketing expenses to trend lower as a percentage of revenue over the long term. As discussed earlier, G&A expenses were slightly higher in the current period compared to the same period last year due to approximately $200,000 onetime legal and professional fees recognized in the quarter.

Staff and operational costs are currently relatively stable and expected to remain so going forward. Unusually high foreign exchange losses, mostly unrealized at period end, contributed to a net loss of just under $100,000 for the quarter, compared to a net loss of $300,000 in 2021 period.

Year-to-date, the Company has put together three solid quarters such that revenue for the nine months ended September 30, '22 were $29.8 million compared to $28.1 million for the same period in '21. Cash from operations was $2.7 million year-to-date 2022 compared to just $500,000 in the 2021 year-to-date period.

From a balance sheet perspective, the Company continues to make all scheduled repayments on its debt, reducing the principal by over $2.5 million so far this year. Working capital remains tight as a result, although we are confident in our ability to meet our commitments and continue to grow the business, both from a revenue and earnings perspective.

I'll now pass the call back to David.

David Kohler:
Thanks, Andrew.

When we look at Q1 through Q3 of 2022, we're seeing sequential growth as well as year-over-year meaningful improvements. Revenues, Adjusted EBITDA and margins are all up and operational costs are under control and moving lower. We're pleased to see the resilience of our brands and that our strategies are working. Our results are improving despite declines around us. Q3 reports from third parties have suggested that many categories of e-commerce have become hypercompetitive, including health and beauty, which makes our performance even better in context.

When we last spoke, we reported a strong first half of 2022 and alluded to our expectations that the back half would see continued success. This is clearly coming to fruition. As we work to capitalize on the strategic moves we've made we expect to see continued strong revenue and EBITDA performance. We look forward to discussing this with you at upcoming calls. Mindful all of this, we are confident we will continue to stack record quarters.

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

Operator:
Thank you.

Our first question comes from Antonia Borovina of Bloom Burton. Please go ahead.

Antonia Borovina:
Hi, guys. Good morning. Thanks for taking my questions and congrats on a strong quarter.

My first question is just related to your revenue growth year-over-year. Just wondering if you could tell us what that would have been on a constant currency basis. I know you said the FX happened late, so wasn't a meaningful factor, but I don't know if you could provide us with that number.

Andrew Patient:
Yes. I actually can—hi, Antonia, it's Andrew. It's not an exact number, but in terms of the FX, effectively, most of that, almost all of the growth, I'm going to say, upwards of 90% of the growth quarter-over-quarter was constant currency basis. In other words, there was very little impact year-over-year in the currency.

Antonia Borovina:
Okay.

Andrew Patient:
But obviously, that is between the different brands. The majority of that growth was in the DTI brand. Q3, in particular last year was quite soft, and this year, it was quite strong. That brand in particular, grew in the quarter. It was a constant currency basis as well. We've got a $1.6 million delta. I'm going to say $1.4 million, just approximately would be of just constant currency impact in terms of same unit same sales—not units, but the same revenues.

Antonia Borovina:
Yes. Okay. Great. Then what about the trajectory of the volumes year-over-year, particularly for the DT business, like is it flat or is it...

Andrew Patient:
Yes, we don't typically break that out. Again, I'll give you sort of a range of where it is. The units are not yet at the same level they were and that really speaks to the amount, and this is year-to-date. Year-to-date, nine months and in the quarter as well, but particularly nine months, because in 2021, we were doing a lot of discounting. Mainly we were selling a lot more units and increasing revenue by basically pushing volume. This year, we basically pulled back a lot on that over the course of 2021 into 2022. Now as you see the period-over-period, year-over-year is quite a difference

as we go forward. But in the nine months, I think we're—it's single digits, but it's still down in terms of percentage of units for DTI. Somewhere just under 10% lower in units, but then the volume would be probably double digit percent—or sorry, revenue in terms of dollars would be double digits higher.

Antonia Borovina:
Yes.

Then how are you thinking about this business going forward? I know you mentioned you're expecting growth to continue, but do you think that there's still room to grow this business on the volume business, or is most of that growth going to come from pricing?

Andrew Patient:
Again, I'll let Dave maybe throw some comments.

From my perspective, what's clear, and I think we've tried to sort of articulate this throughout the different calls that we've had, is that Amazon, which is still the primary driver of our revenue is very much momentum-based, meaning that as you do better, it feeds into doing better. It sort of builds on itself and obviously, when it goes the other way, it's harder to counter as well.

We had the opposite of that in 2021. We were fighting some really difficult momentum challenges, mainly as a result of COVID and continual—just little blips, nothing significant. But it constantly sort of stopped the momentum. We have done a very good job in 2022 of avoiding those momentum disruptions and continuing to build it. As we do that, we have not really seen the growth slow down.

I don't want to speak too much to what we're doing now, but obviously, it's not typical on the back half of the year to be doing as well as we're doing now. I think we're very optimistic that we can continue to grow, and we're not seeing a slowdown yet.

David Kohler:
Maybe if I can add on—hi, Antonia. We obviously have been hyper focused as a business on the U.S. market historically, but we've been making lots of moves over time to diversify our revenues and our

portals and our geography. When we think about where the growth comes from, as Andrew just noted, we're experiencing it in our existing markets now. We're having a great year from that perspective.

We're also now into other markets as well, Europe China, Australia, to name a few, recently Singapore, which sells into the Malaysian market. There is a big, big, big world out there that we have not really taken a material advantage of. While the business originally was 100% focused on Amazon in the U.S., we've diversified in other countries like in Canada, we've diversified in other portals. We're now into Europe and the East. We think there's tremendous opportunities for growth here still.

To answer your question, I think there's absolutely growth ahead, not just in the short term, but long.

Antonia Borovina:
Then just wanted to clarify with regards to the price increases, I know you took some earlier, I guess, in 2021 on some key products and the more broad increases about mid-first quarter. Just wondering, were there any app following that or was that really the mid-first quarter? Then also just kind of following up on that, Amazon did note some weakness in its business. Just wondering, are you anticipating having to go back to discounting going forward? Or is the health supplements market more robust?

David Kohler:
Well, maybe in reverse order, I think that while Amazon is seeing a little bit of weakness, if you look at it, it's been charted and well documented that they saw a massive uptake at the start of COVID, which has flattened out a bit. But if you look at it over time, they're right back to the trajectory they were on, which was growing e-commerce rapidly in North America, particularly, but globally. While they have softened a little bit, as we noted, I tried to allude to that in my earlier comments, we're seeing growth despite that. In the environment that we're in, we're really pleased to see how robust the brands have been and that they've got that kind of stickiness with consumers.

Regarding pricing, both increases and discounting, what we've seen is that we have a good loyal customer base. We use a lot of subscribe and save data to support that thesis. But moreover, we've taken advantage of opportunities to increase prices when we look at just the general economy and inflation and consumer kind of tolerance for inflation because it's been so much in the news and it's happening everywhere. We've taken some general increases, but we've also been very surgical, where we've been able to look at our competitive set on a per product basis and doing analytics to see who our real competitors are, who are the others that are popping up on screen with us when consumers are shopping.

We've taken opportunities, sometimes penny, sometimes nickels and dimes and more to raise our prices to what we think is the optimal level. We're hypervigilant on that. Price increases is not a onetime event. It's really just kind of part of the product management that we do now. We're making sure that we're optimizing every sale we can get. That's really translating into the improved margins and not just the top line as well.

Antonia Borovina:
Great.

Then on your skin care business, you mentioned you had early successful Prime Day and you said something about placement of the products. I'm just wondering if you can provide us a bit of color on what drove the success of the skin care business this quarter.

David Kohler:
Yes. It's a great question.

Within the—I apologize, I don't know how much people would generally know about how Amazon runs their Prime Day. But you have to kind of qualify to be into the deal bucket for that day. They don't just pull companies at random. You can't buy your way in. It's a combination of performance and placement and best seller rankings and all these things. Anyway, within the skin care family, we qualified for some highly placed deals, some deals of the day, for example, which are high-profile front-page kind of stuff that really bombards the consumers.

Based upon that, we saw a significant volume on those days. What we refer to as the halo effect after the fact, so you've got new consumers, great first-time buyers. You get the knock-on effects of that. They enjoy the products, they buy them again and again. I don't know if that specifically answers your question, but we had some really high-quality placements on Prime Day, which led to great volumes.

Antonia Borovina:
Great.

Then just my final question. Historically, Black Friday and Cyber Monday haven't been big sales days for you guys, just because it's not really something—supplements aren't really something people buy at that time of the year, but first quarter is typically stronger. But given the success of the July Prime Day, I'm wondering if you have any plans for Black Friday, Cyber Monday, if you will be going all in on promotion and what we can expect there?

David Kohler:

Well, you are correct. That holiday period is typically not health and wellness focused. It's more of electronics, frankly. But with that said, we know that there's lots of traffic on the sites in those days. We have taken some placements, particularly with the skin care businesses. I believe it's primarily on Black Friday. We're not—I wouldn't call it going all in, but we're definitely going to take advantage of some traffic increases.

Antonia Borovina:

Okay, great. Thanks for that.

David Kohler:

You're welcome.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to David Kohler for any closing remarks.

David Kohler:

Thank you. Thank you all for joining us on the call today. We will be putting a transcript of this call on our website. You can contact us through that portal at any time at www.mimisrock.com, or certainly, feel free to reach out to me personally with any other follow-up questions. We look forward to communicating again soon. Thank you all for your time and wish you a great day.

Operator:

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