Mimi's Rock Corp.
First Quarter 2021 Results
Conference Call Transcript

Date: Thursday, May 27, 2021

Time: 11:00 PM ET

Speakers:

David Kohler
Chief Executive Officer

Andrew Patient
Chief Financial Officer

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

As a reminder, all participants are in a 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:
Good morning everyone and thank you for joining us on our Q1 2021 results call.

We'll turn to the results we filed Wednesday morning in just a moment, but first I would like to take a minute to tell you a little bit about Mimi's Rock and our current state of operations, including some sight lines into what's happening in the broader ecommerce space.

As most of you will know, Mimi's Rock Corp. owns and operates a number of online brands 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 our wholesale partnerships 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.

Twenty-twenty was a year of both challenges and opportunities. The global pandemic was disruptive in many ways, despite which we were able to stay the course in terms of geographic and channel growth. We did not, however, complete any M&A transactions during that period. 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 as we look to expand top line revenues and EBITDA margins.

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. The accelerated move to online commerce and the scramble by all to adapt created an opportunity to capitalize on the Company's operational strength. We're able to ensure reliable product delivery to our customers, and during the 2020 year, we had virtually no stock-outs while seeing steady revenue performance.

During the first quarter of 2021 for the most part, we saw a continuation these trends. In-market sales in Q1 2021 were similar to Q1 of 2020, where they were muted by the weakening U.S. dollar. Andrew will speak more to that shortly, but as the U.S. is our largest market, we are unfortunately impacted by these swings.

Meantime, we saw continued growth in our other markets, particularly in Canada where sales of our Dr. Tobias brand grew by over 300% year-over-year in terms both of units and dollars. Acknowledging Canada is a smaller market on a global scale, we are still extremely pleased to see that our launch here using our Amazon learnings is bearing fruit. It gives us confidence as we continue to work on our other new market entries that we can follow a similar growth curve.

Our ability to launch our brands into new markets to create momentum and grow in these markets is key to the organic growth portion of our strategy. The success we are having in Canada bodes extremely well for our launches in other markets as we believe we can follow a similar growth curve.

In the key U.S. market, Management made the decision to seize upon the New Year, New You mentality of many health and wellness focused consumers in order to best position the Company for what we see as a somewhat unique opportunity on the near-term horizon. Amazon, which is the dominant ecommerce player in the U.S. with mid-40% share numbers of all ecommerce dollars, has announced they are implementing a new regulatory requirement which exceeds the FDA's current stage gate requirements for market access. Beginning June 7 of this year, all vitamins and supplements sold through Amazon's marketplace will be required to have a certificate of analysis from an approved lab. Management interprets these changes by Amazon as a way of eliminating some of the bad actors in the space.

As you may know, labels in the supplement space must include what's known as a Supplements Fact Panel. This panel outlines the ingredients and potency thereof, which allows consumers to assess the relative strength and quality of the products they are selecting. Unfortunately, some opportunists have sold inferior or outright mislabelled products online, including making unverifiable label claims on their products. During the last year in particular, the stampede to sell online included, it seems, some unscrupulous entrepreneurs.

In a matter of weeks, the new requirements come into force. This means that every vitamin and supplement must carry a certificate of analysis from a certified lab. It also means that those companies whose products can't make this hurdle will be unable to sell going forward. This new requirement, we believe, will have a twofold impact by reducing the number of online sellers also while bolstering confidence from consumers.

I'm also pleased to report that Mimi's Rock has secured this verification testing across our top 10 products already, with remaining approvals landing daily. We believe this culling of the proverbial herd will afford stronger, fully compliant operators like Mimi's Rock opportunities to gain share.

In order to be best positioned for this shift, Management decided to aggressively pursue new customer acquisition and awareness in Q1. We increased our advertising spend and discounting and drove incremental volume. We saw an increase of almost 50% in units sold versus the same period in 2020.

This translates into many new customers, and as we have a 58% customer retention metric annually, we expect the majority of these new clients to stay with us. We also believe that many more customers will now have higher levels of awareness of our products, which should also translate into more revenue as the new regulatory requirements reduce the number of competitors in the space.

The strategy we followed not only led to increased volumes but also saw us improve our bestseller rankings and saw a lift in overall rank of our top two sellers, those being fish oil and colon cleanse. Further, we seized upon what we saw as an opportunity to increase the price on our colon cleanse product twice by a total of USD $1.00 combined per bottle. This was based on a competitive set evaluation, and despite this increase, our unit volume on the product has actually grown by 20% per month. This increase in volume and price sets us up for better performance, and as we anticipate the shakeout of the sector as the new regulations come into force, we anticipate more of these opportunities and even better results.

As noted, we saw increased unit volumes in line with our strategy. The combination of the discounting we did combined with the extra advertising spend, however, meant the financial impact wasn't what we would have preferred, but we're confident it sets us up for improved results in Q2 and beyond. Having more consumers using our products as we enter this new realm with Amazon will mean more and better opportunities.

Operationally during Q1 2021, we added another portal through which we sell, launching our companion pet supplement via Chewy.com. They are a leader in pet-related supplies, and we feel the opportunities there are excellent. Pet ownership numbers have spiked, in part driven by the pandemic, and we see joining this channel as a great way to benefit from this trend.

We've also seen the first significant uptake in our skincare brands in the U.S. market. Sales in Q1 were up 81% on the skincare lines over the same period last year as we hope to follow a similar curve to the launches we've seen in Canada.

Additionally, we've launched two new products in the last quarter, including our Beta Blend product in partnership with Avivagen. This product contains a human version of the oxy beta carotene we utilize in our pet supplements. We're excited about this product as it shows great promise for joint health, which aligns well with demographics.

We've also launched a Vitamin D product in Canada. This is an important product for people trying to avoid too much sun exposure and is one product is routinely linked to immunity response, so it's a good opportunity during both the COVID pandemic and more broadly in our climate, with sun safety becoming more normal. As we've previously indicated, on trend, timely new product introductions are keys to driving growth in our existing markets.

As we look ahead, we see the volumes we are moving translating into higher revenue numbers, and with the new customer awareness we have generated in the run-up to next month's regulatory shift, we expect to see strong in-market performance and elevated bottom line as well.

From a headwinds perspective, the continued weakening of the U.S. dollar could impact our Canadian dollar reporting metrics, but our natural hedge of purchasing our inventory in the U.S. should mean things will still translate well to the bottom line. Further, as we contemplate acquisitions in the near term, the strength in Canadian dollar puts us in good stead in terms of buying, in particular U.S.-based businesses.

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

Andrew Patient:
Thank you, David. Good morning everyone. I'll start by providing some additional commentary on our financial results for Q1 2021.

As David indicated, while we made some important progress, our 2021 first quarter was somewhat disappointing from a financial perspective. Total revenue for Q1 2021 was $9.8 million, down from the $10.4 million we reported in Q1 2020. While the U.S. dollar decline from a year ago accounted for a majority of the difference in revenue; it was about half a million difference, there are some other details I should just highlight.

While the DTI business in U.S. dollar revenue was down approximately single digits, mid-single digits, this was mainly due to more significant discounts offered in Q1 in order to promote the volume that we spoke about. This seemed to have the desired effect as we referenced, but our skincare revenues were actually up quite significantly in Q1 in both dollars and volumes. Gross profit was impacted mildly by the additional volumes as we were able to maintain margins north of 68%. Typically, these are a little higher in the range of 69% to 70%, and gross profit for Q1 2021 was $6.7 million versus $7.3 million a year ago.

Sales and marketing expenses increased also in Q1 2021 to $5.2 million or over 53% of revenue, compared to $4.7 million or 45.5% of revenues in the first quarter of last year. We entered 2021 with a focus on making a deliberate investment in advertising spend in the first quarter with a focus on gaining product rankings and visibility.

As a result of this strategy, several of the Company's key products achieved top rank in their category. The effect of the additional customer views improves the positioning of the product when its searched and ultimately translates to higher conversions or sales transactions. While we expect to maintain some flexibility to add additional spend as necessary, we plan our overall budget for the year closer to the historical range of 45% or 46% of revenue.

Q1 2021 EBITDA was just $0.1 million compared to $1.1 million a year ago, mainly due to the impacts on the revenue and ad spend as described a moment ago, while Adjusted EBITDA, which adds back non-cash stock-based comp and foreign exchanges losses, was $0.2 million for the first quarter versus $1.2 million for Q1 a year ago.

Just a final note from a capital perspective, while our business is not capital intensive, we've focused primarily so far on repayment of the long-term debt. As we go forward in 2021, we'll continue to focus aggressively on M&A while still being mindful of our overall capital structure. We feel confident we can find a way to continue to execute without disrupting the current balance.

I shall now turn the call back to David. Thank you.

David Kohler:
Thanks, Andrew.

Just before we open for questions, I want to revisit the three pillars of our aggressive and strategic growth plan. First, we will continue to diversify the platforms. As I've noted, we've added products on multiple new portals in the last year and specifically in the last quarter with Chewy. We believe we need to meet our customers where they are, so we will continue to push this concept. While Amazon is the clear leader, there are other portals.

Secondly, we will continue to expand our product offerings. We developed a robust product selection process which we will continue to tune our product offerings and make product life cycle management changes a priority.

Finally, we will 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 we've outlined. While foreign exchange fluctuations have a downside, they also give us an opportunity in the M&A vertical of our strategy.

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

Operator:
We will now begin the question-and-answer session.

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

Antonia Borovina:
Good morning, guys. Thank you for taking my questions.

Maybe firstly on the revenues, you mentioned that for the base business, the revenues on a constant currency basis were down mid single digits, but you said overall that your volumes were up 50% for vitamins and the skincare business combined. I'm just wondering, are you able to split that growth in revenue and just give us a sense of how much the base business grew in volume?

Andrew Patient:
Hi, Antonia. It's Andrew.

Yes, we don't typically break out that detailed. I can give you some indications though. It wasn't all the same. I would say in general, the supplements in volume didn't grow as much as the skincare. The skincare was a significant growth in volume, but again a lot more discounting on the skincare side than there was, so it was sort of the same tale but a little bit more intense on the skincare side than on the supplement side.

That being said, both showed really good growth in units. One of the unit growth was the colon cleanse which, while we did take a price increase on that later in Q1, it's one of our lower priced products so it doesn't necessarily drive all the volume right away, but when you make a change, it does make a significant difference.

In terms of growth overall, I would say that why we look to 50% blended, it was probably, without having the exact numbers, probably like 35% and, say, 60% for the supplements and skincare, so then you blend it, out and it ends up about 50%.

Antonia Borovina:
Okay, that's helpful. The fact that your supplements didn't grow as much despite the aggressive marketing campaign, going forward do you still expect significant growth in this business, or do you expect it to come more from price increases?

Andrew Patient:
Yes, let me answer that first from a financial standpoint, and then I'll pass it to Dave.

Just related to the spend, I referenced the fact that we came into 2021 with a focus to try to spend more aggressively, and that was sort of two phased. One was Amazon had some new channels and new opportunities to advertise in that they previously had not had, primarily their Fire and OTT channel. We decided to make an investment there.

It's hard to determine exactly the return from that. It's not like the others because it's not directly attributable, it doesn't have direct click-throughs, but we could see it was working. But that was an investment that is more in the brand and kind of an awareness thing, and sort of building the campaign, as you probably know with marketing, you don't generally get the customer on the first impression, so you kind of have to set this investment level of just developing the awareness, and then on the second, third, fourth impression, then the customer is sort of recognizing it and eventually will buy it.

There was a little bit of investment on that in that respect in Q1, in the sense that we were trying to get some of those more brand awareness, overall campaign that doesn't directly translate into sales in Q1, but we do feel good about how it impacted our overall volumes, and combined with the fact that we pulled back discounting, we do hope that that will help us going into Q2.

Dave, you want to just maybe comment on—I don't know if I totally addressed Antonia's question, but probably you're better equipped than I am.

David Kohler:
Yes, I'll just add to what you said. Thanks, Andrew.

The growth strategy, when you think about pushing volume, is to create new customers, new customer awareness, mindful of the lifetime value of customer calculations that we do. When consumers are encouraged through discounting or extensive advertising to try the product, as I indicated earlier, about 58% of the time they stay with the product, so we get a fair number of repeat customers out of that. We are strongly of the belief that by pushing that volume, we now retain those customers, and then we allow more normalized pricing to take effect over time, so it will give us stepwise growth.

We believe the strategy works in general, but more specifically in the environment we're in with the pending changes coming next month, we understand that there's going to be a good amount of our competitors who just simply can't make the hurdle, so as other consumers may be put into the wind by those changes, we feel confident we're going to grab and keep them and then translate that into both revenue and profitability going forward.

Antonia Borovina:

Okay, great. Then a follow-up on that, so with the new certification in place at Amazon for supplements, do you expect that this will impact your gross margin going forward?

David Kohler:

Well, we certainly think it will give us an opportunity because, as I indicated in my comments earlier, in 2020 there was a real stampede, if you will, to online selling. Any company that wasn't selling online was starting, and a lot of people seized upon that opportunity. The hurdle to become an Amazon seller is low. They will let almost anyone sell products on the platform, so what you were seeing was a rush of new sellers and people who would come in, offer extremely low prices, cut cost opportunities in order to attract an initial customer base.

As some of the so-called bad actors get cleaned out, we think there's going to be a more normalization of the environment in general. We think Amazon is putting up higher bars in terms of regulatory requirements. You may have also seen as recently as earlier this week, they are subject of a lawsuit over pricing and forcing pricing lower in the market, which is seen as unfair competition by Washington DC, so there's some changes there that we think set us up to take advantage of the increased customer awareness, the increased loyalty, and then obviously better margins based upon both.

Antonia Borovina:

Okay, and then…

Andrew Patient:

I can just maybe address—sorry, Antonia. I just want to maybe address, if you were maybe referring to if there was additional cost to us to be compliant, there really isn't. It's sort of on our manufacturers. As you know, we use contract manufacturers, so we have those strong relationships in place and have worked with them over the last period of time to make sure they're all in place. That's sort of a one-time hurdle thing, and then on maintenance, that isn't really our burden, so there's no additional cost. But obviously, we do hope to get some additional sales, and I think there's a cost in the sense that when you have these people that are coming in and sort of undercutting or selling inferior product, there's a cost to everybody because people lose confidence and it takes it away, so we do feel like it will improve overall for everyone, including us.

Antonia Borovina:
Okay, and then my last question relating—you mentioned the Dr. Tobias sales in Canada are going well, and that you saw 300% growth. I guess just what's going right in Canada, and maybe if you can talk about some of the other markets that you launched the products in, including Germany.

David Kohler:
Yes, so what's going right in Canada is that—well, a couple things. First of all, as some of you may be aware because we've talked about it in the past at different times, there is a proverbial flywheel when it comes to selling online. Sales begets ratings begets reviews, which creates more awareness, more eyeballs, better positioning and so on, so it takes time to get that flywheel turning and to get your products starting to come up the rankings and reviews section. We launched in Canada a little over a year ago, and it was slow in the early days, and then what we've seen is a continued march up the rankings and reviews platform and good success, culminating, as I said, with over 300% increase year-over-year.

With respect to Canada, we've also launched and had great success with our U.S. originated omega 3 fish oil product. What we did was we were able to apply to Health Canada to get an NPN, which is the Health Canada registration for supplements, which allowed us to sell the identical same ASN, which is Amazon's term for SKU, online in Canada, and when you have the same ASN, that allows you to port your reviews and ratings. Our fish oil in Canada now shows the U.S. fish oil as one of the options, which includes over 20,000 reviews and a 4.5 star rating, so it's become number one in Canada. We're actually selling two fish oil products now in Canada, both with high quality, but the U.S. one, because it has such clout from a ratings and review perspective, we've seen the sales really take off.

We've taken a lot of these learnings into the other markets, and I know you specifically mentioned Germany. I can tell you that while Germany is a little different insofar as we obviously have German language labels, we can't use necessarily the same ASN because to port it, as I described in Canada, it has to be identical. We've contemplated putting an English language label on it to see how it's received.

Nevertheless, what we do is we take the learnings from these different portals because Amazon in the U.S. is really kind of the mother ship for them, and they run all their beta programs, all the testing, all the new programs through there, so it's a great playground, if you will, to learn on, and we can take those skills and things we've developed into these other markets so that we can create similar types of growth curves, so we think it puts us in good stead as we launch in these other more populous, larger economy countries around the world.

Antonia Borovina:
Great, thank you.

Operator:
Once again, if you have a question, please press star then one.

The next question comes from Horst Hueniken from Hueniken Asset Management. Please go ahead.

Horst Hueniken:
Good morning, gentlemen. Thank you for taking my question.

David, you have disclosed that the Company has increased the price of its highest volume product, and that it's had no negative effect on volumes. Given this positive dynamic, is your team considering increasing the retail selling price of any other of the Company's products?

David Kohler:
Thanks for the question. Nice to hear from you, Horst.

Yes, in a simple answer. We constantly monitor the competitive set of the product families that we sell in. Competitors do come and go, deals come and go, and we want to be vigilant about making sure we're optimizing our price points. With that said, we are also particularly interested in this moment in early June when the new regulations come into place, because that will presumably pull some of the products off the platform, then we'll have to do a thorough scrub to ensure that we are priced appropriately and, wherever possible, yes, our absolute intention is to always take price increases where they're available to us.

We think across our line, there will likely be opportunities in the near term; nevertheless, we continue to monitor that on a monthly basis and make sure that we're positioning the product prices as best we can to optimize earnings.

Horst Hueniken:

Sounds like the next 60 days will be interesting in that regard. Thanks. That's all for me.

David Kohler:

Thank you.

Operator:

There are no more questions in the queue.

I'd like to turn the conference back over to David Kohler for any closing remarks.

David Kohler:

Thank you, Operator, and thank you all for joining us on the call.

As mentioned at the beginning, we will put a transcript on our website, and you may contact us through our website 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 with you soon. Thank you all and have a great day.

Operator:

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