

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NLS - Q4 2013 Nautilus, Inc. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 24, 2014 / 9:30PM GMT



CORPORATE PARTICIPANTS

John Mills *ICR, LLC - IR*

Bruce Cazenave *Nautilus, Inc. - CEO*

Bill McMahon *Nautilus, Inc. - COO*

CONFERENCE CALL PARTICIPANTS

Reed Anderson *Northland Securities - Analyst*

Ian Corydon *B. Riley & Company - Analyst*

Andrew Burns *D.A. Davidson & Co. - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Nautilus fourth-quarter FY13 conference call.

(Operator Instructions)

As reminder, this conference is being recorded, Monday, February 24, 2014. I would now like to turn the call over to Mr. John Mills. Please go ahead, sir.

John Mills - *ICR, LLC - IR*

Thank you. Good afternoon, everyone. Welcome to Nautilus' fourth-quarter 2013 conference call. Participants on the call from Nautilus are Bruce Cazenave, Chief Executive Officer; Bill McMahon, Chief Operating Officer; and Sid Nayar, Senior Vice President, Finance. Our earnings release was issued earlier today and may be downloaded from nautilusinc.com on the Investor Relations page. The earnings release includes a reconciliation of the non-GAAP financial measures mentioned in today's call to the most directly comparable GAAP measure.

Remarks on today's conference call may include forward-looking statements within the meaning of the securities laws. These statements, including statements concerning the Company's current or future financial and operating trends, are subject to a number of risks and uncertainties, and actual results may differ materially from those statements. For more information about these risks, please refer to our quarterly and annual reports filed with the SEC, as well as the Safe Harbor statement in today's press release.

Nautilus undertakes no obligation to publicly update any forward-looking statements to reflect new information, events, or circumstances after they are made, or to reflect the occurrence of unanticipated events. Unless otherwise indicated, all information and comments regarding our operating results pertaining to our continuing operations.

With that is my pleasure to turn the call over to Bruce. Go ahead, Bruce.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, John. Good afternoon, everyone, and thank you for joining our call today. I'd like to begin today's call by introducing Sid Nayar. As we recently announced, Sid joined us earlier this month and will soon take on the responsibilities of Chief Financial Officer for Nautilus. As you may know, we conducted an extensive national search to fill this key role on our executive team, and we are delighted to have someone with Sid's talent and experience joining us.



On today's call, I will start by providing a general overview of the fourth quarter and the year, and then we will move on to review our financial results in more detail. Bill McMahon will then add some details on each business, as well as updates on product activity. And then I will close with some summary remarks before we open up the call for questions.

During the fourth quarter, we achieved top-line growth of 19% over the same period last year, primarily reflecting a strong sales increase in our retail business combined with continued growth in our direct business. Operating income in the fourth quarter increased 32%, which reflects improvements in gross margins for both businesses in addition to higher sales.

In the fourth quarter, we continued to tightly manage our operating costs, including selling and marketing, and general and administrative costs. We achieved leverage in our total operating costs for the fourth quarter, while at the same time continued to make strategic investments in media spend and creative in order to help drive awareness of new products and expand sales leads.

The improved financial performance this quarter, as well as for the full year is the result of numerous initiatives, all of which have centered around our three previously disclosed focused areas of the business -- product innovation, margin improvement, and achieving operating leverage. I'm very pleased that we made good progress on each of these initiatives in 2013, and ended the year with an expanded and more diversified product portfolio for both our retail and direct segments, improved gross margins in both segments, and improved operating efficiencies.

Now I would like to review some details of our financial results for the quarter and the full year. Net sales for the fourth quarter totaled \$77.1 million, an increase of 18.5%, as compared to the same period prior year. For the full-year 2013, net sales were \$218.8 million, a 12.8% increase over last year.

Fourth-quarter gross margins increased in both our retail and direct segments; however, total gross margin declined 70 basis points to 47.6% due to a greater percentage of sales in the quarter coming from our lower gross margin retail segment. On a full-year basis, gross margins also increased in both businesses, and total gross margin increased to 48.7%, a 180 basis point improvement over last year.

Total operating expenses for the fourth quarter as a percentage of sales decreased to 34.5% from 36.5% in the fourth quarter last year, underscoring our initiatives to leverage operating expenses across higher sales volume. The improvement in operating expenses as a percentage of sales was primarily due to a disproportionately larger growth in the retail business this quarter, and that business carries a lower variable sales and marketing expense.

We did strategically increase our media spend in the quarter, and we are pleased that we are able to achieve the leverage improvement, while continuing to invest in the appropriate spending areas to help increase awareness and build sales leads for existing and new products. Bill will comment later on the results of our new media initiatives.

General and administrative expenses were \$4.9 million, or 6.3% of sales, for the fourth-quarter 2013, which compares to \$5 million, or 7.7% of sales, in the same period last year. The improvement in G&A as a percentage of sales highlights operating efficiencies and our ability to leverage the existing operating platform as business expands. Research and development costs in the fourth quarter of 2013 were \$1.8 million, compared to \$1.2 million in the same period last year. This reflects our commitment to continue to evolve and broaden our product line through new and refreshed products.

Operating income for the fourth quarter of 2013 increased to \$10.1 million, a 32% increase, compared to \$7.7 million in the same quarter of last year. The increase reflects higher sales and gross margins in both direct and retail segments, combined with improved operating leverage of sales and marketing, and general and administrative expenses. Full-year operating income increased 48.5% to \$15.7 million from \$10.6 million last year.

Net income from continuing operations for the fourth quarter was \$8.4 million, or \$0.27 per diluted share, compared to \$7.3 million, or \$0.23 per diluted share for the same period last year. Adjusted net income from continuing operations for the fourth quarter was \$9.6 million, or \$0.30 per diluted share, compared to \$7.3 million, or \$0.23 in the same period last year. The adjusted net income figures exclude nonrecurring income tax benefits and expenses.

As you may recall in the second quarter of 2013, we recognized an income tax benefit of \$1.09 per share as a result of the partial reversal of the valuation allowance recorded against Nautilus' deferred tax assets. During the fourth quarter this year, it was determined that this reversal underestimated our full-year profitability, and we reestablished a portion of the reversal, resulting in a recognition of an income-tax expense of approximately \$1.1 million, \$0.04 per share in the fourth quarter of 2013.

For the full year of 2013, net income from continuing operations was \$48.1 million, or \$1.53 per diluted share, compared to \$10.6 million, or \$0.34 per diluted share last year. Full-year 2013 net income includes an income tax benefit of \$33 million, or \$1.05 per share, due primarily to the aforementioned partial reversal of the valuation allowance. Excluding the tax benefit, 2013 net income from continuing operations was \$15.1 million, or \$0.48 per diluted share, compared to \$10.6 million, or \$0.34 per diluted share last year.

Total net income, including discontinued operations for the fourth quarter of 2013, was \$8.5 million, or \$0.27 per diluted share. This includes \$0.1 million in income from discontinued operations. This compares to a fourth quarter last year where we reported total net income, including discontinued operations, of \$13.6 million, or \$0.44 per diluted share, which reflects income from discontinued operations of \$6.3 million, or \$0.20 per diluted share. Last year's discontinued operations included income of \$6.2 million from non-cash recognition of currency translation adjustments related to foreign entities of the discontinued operations.

Turning now to our segment results, net sales in the direct business totaled \$43 million in the fourth quarter, a 3.7% increase over the same quarter last year. Direct segment sales benefited from strong demand for our cardio products, especially the Bowflex TreadClimber product line. This growth was partially offset by a decline in strength products, which are continuing to shift to the retail business.

For the full-year, our direct business net sales increased 9.3% to \$136.7 million. US credit approval rates rose to 39.7% in the fourth quarter of 2013, up from 37.4% for the same period last year.

Gross margin for the direct business improved to 60.2% for the fourth quarter of 2013, compared to 58.9% in the same quarter of last year. The direct business gross margin benefited from improved overall overhead operating efficiency and cost improvements. Operating income for the fourth quarter in our direct business was \$5.6 million, compared to \$6.5 million in the same quarter prior year. The higher sales in gross margin were offset by higher media and advertising investments designed to help drive new product awareness and expand the sales leads.

Net sales in our retail segment for the fourth quarter were \$32.1 million, an increase of 47%, compared to \$21.8 million in the fourth quarter of last year. The improvement reflects strong retailer acceptance of the Company's new lineup of cardio products, as well as increased sales for existing strength products.

On a comparative basis, it is worth noting that retail segment sales in the fourth quarter of last year were adversely affected as a result of some retail customers accelerating a portion of their purchases into the second quarter from the third and fourth quarters when compared to their typical buying patterns. We believe this shift in buying patterns was in anticipation of the price increase the Company implemented in the second half of last year.

Net sales in the full year for the retail business were \$76.8 million, an increase of 20.2% compared to the same period last year. In the fourth quarter, operating income for the retail business increased to \$6.5 million, as compared to \$3.7 million in the fourth quarter of last year. Retail gross margin also increased to 27.4% in the fourth quarter of 2013, compared to 24.1% in the same quarter prior year. Retail gross margin benefited from a combination of the mix of new products, higher sales volume, and improved overall overhead operating efficiency.

Now turning to the consolidated balance sheet, we continue to improve our financial position. Cash and cash equivalents increased to \$41 million as of December 31, 2013, with no debt financing. This compares to \$23.2 million in cash and no debt at the end of 2012. Inventories were \$15.8 million as of December 31, 2013, compared to \$18.8 million at the end of 2012. Trade payables were \$37.2 million as of December 31, 2013, compared to \$32.8 million at the end of 2012.

At this time, I would like to turn it over to Bill McMahon, our Chief Operating Officer, who will provide additional insights into our business and key products. Bill?



Bill McMahon - *Nautilus, Inc. - COO*

Thank you Bruce. I would like to add a few comments regarding our operations and provide additional background on our fourth-quarter results and our positioning as we enter 2014.

Starting with our direct business, we continue to make steady progress in this segment. Our cardio product lines, including the Bowflex TreadClimber, continue to grow at double-digit pace. Q4 was unusually back-loaded in terms of sales in the quarter, due primarily to a late Thanksgiving holiday and the softness in lead conversion we experienced entering the quarter. Sales and conversion were very strong in the direct business as the quarter ended.

Also in Q4, we chose to invest additional television media dollars into incremental and higher visibility television networks to further expand TreadClimber product awareness. We believe our lead generation and conversion have benefited from that incremental spend, and expect the return on that investment will be felt as those leads mature in 2014. These results indicate to us that our cardio product line, specifically TreadClimber, continue to have strong growth potential.

Our direct segment results also benefited from the performance of the Bowflex UpperCut, which was launched in early 2013. We were pleased with the performance of this product in the peak fitness season.

While we continue to find growth in direct cardio and with new strength products, such as UpperCut, these gains have been partially offset by the continued decline in sales in our legacy direct strength category products, such as home gyms. Sales of these products have primarily transitioned over to our retail segment, where we can further leverage the awareness previously created by direct-to-consumer advertising.

It's important to note that as a Company overall, our sales in the strength category grew at double-digit pace in 2013. We continue to prioritize research and development of additional products, which are intended to bolster the direct strength segment.

Also at the end of 2013, we officially launched the Bowflex MAX Trainer. The Bowflex MAX Trainer is a revolutionary, new high-performance cardio machine that combines the movements of a traditional elliptical with a stairstepper. While our TreadClimber product provides a unique and more effective machine targeting the large treadmill category, prior to the MAX Trainer, we have not had an equally unique product for the very large and growing elliptical machine market.

The MAX Trainer engages the full body and burns more than 2.5 times the calories as a traditional elliptical machine. Our industrial design with MAX Trainer is designed to enable full-body movement, including engaging the upper body 80% more than in a traditional elliptical machine, all while remaining easier on the joints than running on a treadmill. The MAX Trainer features a 14-minute interval workout that maximizes the benefits of after-burn and can increase metabolism for up to 48 hours after a workout is completed.

Finally, the MAX Trainer features enhanced connectivity that allows users to track their workouts with the free Bowflex MAX Trainer app, which wirelessly transfers all workout data via Bluetooth. The app tracks every detail from time-on-machine to calories burned and automatically syncs workout data with the popular third-party applications, such as MyFitnessPal, or with our own free-to-use website, BowflexConnect.com.

There are two versions of the product and they are priced at \$999 and \$1,499. Since its television launch in early January, MAX Trainer media results and sales performance have exceeded our expectations. Given this strong performance in positive consumer reception, the MAX Trainer will be a key focus for us this year, and we intend to devote appropriate media spend to build product awareness and sales leads.

While these are very early results, and need to be proven out over time, we are very encouraged. We look forward to updating you on this product's performance in upcoming calls.

Turning now to our retail business, to reiterate what Bruce said, it's important to remember that when reviewing our results for Q4, there were some anomalies in prior-year buying behavior exhibited by our retail partners in advance of the price increase we implemented in the summer of 2012. We have discussed this factor in prior calls.

With that said, our Q4 and full-year results reflect meaningful improvements to this segment of our business. As many of you are aware, we launched a new lineup of retail products for the fall. This included a new lineup of model-year 2013 Schwinn cardio products that feature new upright and recumbent exercise bikes and elliptical machines at multiple price points.

Previously we had stated that we are encouraged by retail acceptance in the sell-in of our new products. With Q4's results, we can add that we are especially pleased that our product's sell-through was equally strong. Our point-of-sale data from all key accounts confirms that our products were in line with what consumers were looking for.

Further, we are seeing positive reviews on the products, and our initial quality experience is strong. The success of those new Schwinn line of products gives us confidence as we head into the fall 2014 sell-in season with the intention of building on this foundation to position ourselves to drive for further gains in floor space with our retail partners.

Another growth opportunity that we are increasingly focused on is the international market. In recent quarters, we have experienced strong international growth, albeit off a relatively small base. In 2014, we intend to devote more energy towards international growth.

In January, we attended the ISPO Consumer Fitness Products Show in Munich, Germany, where we showcased our new line of Nautilus cardio products. These products are internationally compliant and designed to reopen the global market to the Nautilus brand.

Our intention remains to work with key distributors in each region to grow our business in a prudent and strategic manner. We know that our brands are well recognized globally and that our retail sales are underrepresented in several key markets. We believe that we can continue to grow our international sales at a rapid pace and are committed to the effort of expanding our sales base outside of North America.

Turning to product development, over the past 24 months we have made significant investments into our product development structure and capability. Our new products, such as the MAX Trainer and the model year 2013 Schwinn line are providing a positive return on that investment.

We continue to maintain a robust product pipeline that looks out over the next three years and prioritizes products that meet end-consumer needs. We plan to maintain a regular cadence of product introductions in both channels. In our May earnings call, we will discuss more details around product lines and plans for the fall 2014 retail season.

In summary, we are well-positioned for a successful 2014. Continued success in the coming year will be driven by a similar formula to what has been working over the past two years. We need to be nimble in our marketing efforts, responding to changes and seizing upon opportunities to optimize our media spend. We must continue to invest in product development and operational capabilities to support our growth domestically and abroad. Creating diversity in our product mix and in our channels is a key element driving our strategic plan. Lastly, but most importantly, we will continue to maintain our focus on driving improvements in both revenue and margin.

I couldn't be more pleased with the work of our employees in 2013. We are very excited about the improved foundation of our business and look forward to continuing to make progress on our long-term goals.

And now I'd like to turn the call back over to Bruce for his final comments. Bruce?

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, Bill. Before opening up the call for questions, I would like to make a few final summary comments -- 2013 was another year of meaningful improvements for Nautilus, with accomplishments in many areas and strong execution on our key initiatives. We are very proud of our team's efforts and the improvements we have made in the business and in building an improved underlying foundation for continued profitable growth in the future.



Looking ahead, we continue to see robust growth opportunities to drive steady, long-term profitable growth. We will continue to focus on launching new direct and retail products. The MAX Trainer will be a big launch for our direct business this year, as Bill stated, and we are focused on supporting this product in the market to maximize its full potential.

We also remain intensely focused on capitalizing on the large domestic retail market. Even with the progress we have made in the past couple of quarters, we still feel that we are very underrepresented at leading domestic retailers, and are well poised to steadily gain more market share.

We see the expansion of our business in the international markets as a significant opportunity for long-term growth and are pursuing initiatives to strategically build our international footprint. We are excited about these and other opportunities in 2014 and look forward to building upon the positive momentum of our business and delivering another year of solid growth.

That concludes our prepared remarks. Now I would like to open up the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Reed Anderson with Northland Securities.

Reed Anderson - Northland Securities - Analyst

Good afternoon. Can you hear me okay?

Bruce Cazenave - Nautilus, Inc. - CEO

Yes. Hello, Reed.

Reed Anderson - Northland Securities - Analyst

Congratulations on a nice another good quarter, good finish to the year. A couple questions, Bill, I think I'll start with Bill. On the margin side, obviously, the marketing spend in the fourth quarter, just curious a couple things. One is, was that the plan going in to start ramping that? You had some things going on, and I'm sure a portion of that is related to ramping up Max and all the events, et cetera, around launching that.

But then I want to reconcile that, because you'd made the comment -- with the comment you had made about the fourth quarter ended up being more backend loaded than you might have anticipated. I want to get a sense of if you were really planning to ramp-up a lot of that marketing spend, because that was my sense coming in, but I would like to hear some further thoughts from you, please.

Bill McMahon - Nautilus, Inc. - COO

Yes Reed, we definitely -- while the sales were backend loaded, we entered the quarter with the intention to invest in TreadClimber and expand the networks. We felt there were pretty good media opportunities to do that, and we felt we had strong creative that would enable us to do that.



And we saw the lead counts we wanted to see that proved out that was a good choice. The conversion of those leads began late in the quarter and certainly carried into the beginning of this quarter.

Reed Anderson - *Northland Securities - Analyst*

Okay. And so with the success of that, was that just -- does that make you want to spend a little more on marketing in that -- around TreadClimber and some other things? Or was that really a function of what was going on in the fourth quarter at this point?

Bill McMahon - *Nautilus, Inc. - COO*

We think there is still good opportunity to continue to invest in TreadClimber.

Reed Anderson - *Northland Securities - Analyst*

Okay, okay good. Then on Max, which based on how long it sounds like it takes to get one if I order one today, obviously, you've got to be pretty pleased with the early results there. Just curious as you think of that, being a big focus area, Bruce, and clearly demand looks to be very strong, are you able to catch up to that do you think? Are you -- what can you do to get the availability of that product in sync with what looks to be some very healthy demand early out of the gate here?

Bruce Cazenave - *Nautilus, Inc. - CEO*

That's a good question, Reed. We have been hard at work right from the get-go, when we realized that our forecast was potentially understated versus what we -- the demand is, as you say. So we have already invested in additional tooling to, let's say, ramp-up the capacity much faster.

It will take us a little while; I'd say months rather than years, to catch up. But we planned -- we're looking out this thing out for the next 18 months, and are building a capacity plan so that we can satisfy the demand that we think is there for the product.

Reed Anderson - *Northland Securities - Analyst*

Okay. And are you still, though, taking orders from people, even though they might see that it could take a little longer to get the product? Are you still seeing people actively engaged in the order process, or would that take a little breather here?

Bruce Cazenave - *Nautilus, Inc. - CEO*

No, actually we are still -- even with the promise period out there, we are still getting orders in every day. Clearly with the understanding that we can't ship them for a while until we have the product available to them, but they still -- there are still some good order activity there.

Reed Anderson - *Northland Securities - Analyst*

Last question on Max, obviously people are responding to the product itself, which makes a lot of sense. But do you think -- you came at this from a marketing standpoint with a little bit different twist than you maybe did historically. You brought in more social, some other things. Do think that is part of the -- part of why it has been a real successful launch, or do think it is more the product itself?



Bruce Cazenave - *Nautilus, Inc. - CEO*

I don't want to give away all of our secrets, Reed, but I think yes, you are on the right track. Which is that we believe that taking a more hybrid approach to this in terms of product showcases, talking about the product before it launches, that is very undirect-like behavior. Usually everything is a secret until day one.

For us, we felt like this was a product that was worthy of getting out in front of people early in starting to talk about. I believe that is a big contributor to why we saw the results we did out of the gate.

Reed Anderson - *Northland Securities - Analyst*

That is great. One more question, and that is credit approvals were up a little bit. Just curious, is that a function of the customer, their situation improving a little bit, scores higher, whatever? Or is it maybe that what the mix of product might be a little bit lower price point on average?

Bruce Cazenave - *Nautilus, Inc. - CEO*

It is actually a little bit of we are seeing good customers still, as we have seen most of the year. We have also been making some progress with some of our credit providers to open up some incremental credit availability. We are pleased to see that we are still making progress there.

Reed Anderson - *Northland Securities - Analyst*

Great, welcome, Sid, and I will let somebody else jump in. Best of luck, guys.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, Reed.

Operator

(Operator Instructions)

Ian Corydon with B Riley & Company.

Ian Corydon - *B. Riley & Company - Analyst*

Thank you. The retail segment margins were much better than we have seen for about three years. Can you talk about why that was and the sustainability of those margins? Then if you could do the same for direct, that would be helpful as well.

Bill McMahon - *Nautilus, Inc. - COO*

Ian, this is Bill. On the retail side, a lot of it is the increased volume is going to have better absorption against the small operating cost of our retail segment. But another contributor would be that when we launch new products, our rules are the same.

We want to launch products that are incrementally better in margin for that category, so an exercise bike would be better margin than the bike it is replacing. So we believe that the margin improvement is sustainable, but you will still see some margin fluctuation in retail in the off seasons, due to the factor, the costs are low, but when the sales are down, you're going to have higher impact on margin.

On the direct side, we feel like -- and we have said this a few times, direct, once you get up around 60 points of gross margin, you are probably reaching what we would consider an optimal level of margin for direct. We will always look for incremental improvements there, but we have been sustaining in the 59 to low 60 level for about the past year. I'm not sure that you are going to see step improvements in direct going forward, but we will continue to strive for that.

Ian Corydon - *B. Riley & Company - Analyst*

Got it, that is helpful. On the royalty side, you got some growth there year over year. Can you talk a little bit about what the plans are for licensed products being released this year into 2015?

Bruce Cazenave - *Nautilus, Inc. - CEO*

Yes, there was growth this year; we are pleased with that. Most of that came from our existing portfolio of licensees, as well as we had -- later in the year, we have the commercial TreadClimber you are aware of that started to kick in as well.

Going forward, this is one of those areas where we are somewhat dependent on how will our licensees sales are going with our brands and our intellectual property and their products. So it is a little bit TBD, but Ian, I can say that we do have -- there is still more optimism on the commercial TreadClimber getting ramped up more. On the other hand, some of the new licensees, the new business that we were hoping to get, let's say, potentially in 2014 might move out into 2015.

I am talking about new, new licensees, okay? That is just because of our findings being added now for about nine months to a year with Seltzer Group, et cetera. We had some learnings that are causing us to go at it at a little bit different way.

I would say that maybe will be a little more deliberate in how we bring on those new licensees. Does that make sense?

Ian Corydon - *B. Riley & Company - Analyst*

That makes sense. And if you could talk a little bit about the direct segment, and the potential to get back to faster growth there. Understanding that strength is a bit of a headwind, what is it going to take to get to more like a -- closer to a double-digit revenue growth rate from where you have been the last couple of quarters here?

Bill McMahon - *Nautilus, Inc. - COO*

I think strength will continue to decline for direct, of course, but it will become less and less of an impact here in future quarters going forward. We believe that our media investments in TreadClimber will pay off in the beginning of the year here in 2014. And certainly, we believe that MAX Trainer has significant potential as a growth driver in the direct business.

I think if we continue to drive those two factors and layer in some of the future product plans we have down the road, our desire is to get direct back to closer to that double-digit growth, versus the low singles where it has been.

Bruce Cazenave - *Nautilus, Inc. - CEO*

I would ask, Ian, that you think about the year, as opposed to just looking at direct quarter to quarter. For the year, direct was up over 9% over prior year. On a contribution basis, which you guys will be able to see when our K is issued later this week, the contribution out-paced the revenue. We were at a rate of 13% increase and contribution on direct versus 9% in revenue.



So you have to look at it with a little bit wider lens, rather than just quarter to quarter. That is before you add in some of the migration of strength into the retail business. If you added that back in, before you know it, you would have been double digits year over year in direct.

Ian Corydon - *B. Riley & Company - Analyst*

Got it. Last question is around the use of cash, so the cash balance has grown pretty nicely. How are you looking at the potential to buy back stock or pay a dividend, and are there any significant acquisitions out there that you would be interested in?

Bruce Cazenave - *Nautilus, Inc. - CEO*

I would say that we are looking and having active discussions with our Board on all of the various options that would be available that would provide the best return review for our shareholders. That is everything from the things you mentioned to also internal investment in infrastructure, in some of what we call our plus growth driver opportunities that we started to talk about at our -- at the ICR Conference in January.

So there is a number of things of opportunities to put our cash to good use, and there is discussions in terms of evaluating all of those with a long-term view of what is the best place for our shareholder return. So more on that to come as upcoming calls come upon us. I can tell you we are taking it very seriously. Obviously, it has grown nicely, and we want to be very careful about what we do.

On the acquisition front, I would say that we are active, and that comes from being, I would say, more silently active before we are going to start to become a little bit more active, if it fits into one of our key strategic growth initiatives. I emphasize that. Now there are very certain criteria that would fit with where we want to go as a Company, and what we need as a Company. It's got to fit that before we would ever consider it.

I would say that it would be an immodest acquisition, if there is an acquisition. It would not be something where we are going to use all our cash or even a big portion of our cash. It would be more of a modest type of acquisition that we are framing up potentially.

Ian Corydon - *B. Riley & Company - Analyst*

Great, appreciate all the color, thank you very much.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Yes.

Operator

(Operator Instructions)

Andrew Burns with DA Davidson.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Thank you and good afternoon. This question is for Bill: you mentioned in the prepared remarks investing some ad spend in higher visibility networks, and I was hoping, if you could elaborate a bit on that. Was that opportunistic based on media buys, or is there a sustainable opportunity that you identified that could yield growth in 2014? Thank you.



Bill McMahon - *Nautilus, Inc. - COO*

Sure, Andrew. We believe it is potentially sustainable by higher visibility networks. We would say networks that cost more money, because they have more eyeballs attached to them. Examples would be ESPN, among others, where during the holiday season, if you are watching cable, you probably saw a lot of TreadClimber ads.

So we spent up with the intention of saying we have solid performing creative; it generates good lead count in quality leads from a credit perspective. Let's try it out on some new networks that might be a bigger investment and see what it does, and we were pleased with the response we were getting, even compared to the incremental expense. So I believe it is potentially sustainable to continue this media model going forward.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Great, and is that a model that could be also used for MAX Trainer, when the time is right?

Bill McMahon - *Nautilus, Inc. - COO*

Yes, yes the same principles would hold true for Max.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Great, thank you. Then on the retail side, I was hoping you could help us think about 2014 growth. It sounds like you will have some second-half launches that I was hoping you could spend a little more time discussing the door opportunity, whether it is filling out all doors of existing accounts, across their entire chain, or adding new retail accounts altogether. What is the opportunity there? Thank you.

Bill McMahon - *Nautilus, Inc. - COO*

Sure, I think the opportunity in retail is twofold: one is to continue to grow domestically. I think we are well represented online, so we do focus a lot on trying to gain retail floor space. Even with our gains with the Schwinn product this year, we are still not a majority floor space holder with the vast majority of our accounts.

So there is a lot of landscape, as it were, for us to go after and compete for. In terms of incremental accounts, that is a little bit different. We are pretty much in all the major retailers who sell product, fitness product, and those we're not in, we have strategically chosen not to be, in some cases, because we did like the deals, to be honest with you.

So we do believe that while there are some regionals and some additional accounts we can go after and perhaps some nontraditional fitness accounts, the majority of our effort is designed at continuing to take and gain floor space with our retail partners. So we think the Schwinn model year 2013 products from this year were really important step in that regard, as they provided credibility for sell through as well as sell in. We need to build on that now and continue to grow that segment.

The second leg of our retail growth is definitely international, which albeit, small now, our brands are known internationally, and we believe that we can lever our model here and use that to help contribute to retail growth as well.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Great, thank you. How would you characterize the retail backdrop right now from an industry perspective for exercise equipment?



Bill McMahon - *Nautilus, Inc. - COO*

Yes, I think a lot of the bricks-and-mortar guys are trying to find a new way. They're trying to figure out how to reverse some of the recent declines in their sales. While our products are driving growth, we don't mind a little bit of turmoil in the retail space, because it gives us opportunities to talk about new ways of doing things and new product lines.

I think they are more receptive than they have been in many years to, well, what is it the consumer wants versus what we think we should keep putting on the floor. I believe that our product development investment makes us uniquely suited to provide those solutions going forward. So it's good opportunity for us, but so far in the retail floor space, nobody is really hitting a home run right now, but several of them are looking at what does it take to do that?

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Great, thank you. Last question, I know you don't want to tip your hat too much, but just in terms of the mix of new product introductions that we will see in 2014, from a price point standpoint, is it going to be across all price points or more focused towards some of the non- finance lower price point categories? Thank you.

Bill McMahon - *Nautilus, Inc. - COO*

We don't want to tip our hat too much, but I would say some of the major launches that are coming this year will be in the retail space, as well as a product below \$1,000.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Okay.

Bruce Cazenave - *Nautilus, Inc. - CEO*

I think the other thing, Andrew, is as we usually do, probably in our May call talking about Q2, we can give you a little bit more color in terms of what is coming up for the next back half of the year, product wise.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Okay. Welcome, Sid, and thank you, Bruce and Bill.

Bill McMahon - *Nautilus, Inc. - COO*

You got it, thank you, Andrew.

Operator

I would now like to turn the call over to you.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Okay. Thank you, again everyone, for everyone's participation and interest in our call today. As an FYI, we do plan to attend a few investor events over the next few months, including participating in the NYSE opening bell ceremony on Tuesday, March 18. We hope to see you at one of these events, and either way, look forward to speaking with you next on our first-quarter 2014 conference call in a couple months. Hope you all have a great rest of the day. Thank you.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

