NLS - Nautilus Inc Conference Call to Discuss the Octane Acquisition

EVENT DATE/TIME: JANUARY 04, 2016 / 9:30PM GMT
JANUARY 04, 2016 / 9:30PM, NLS - Nautilus Inc Conference Call to Discuss the Octane Acquisition

CORPORATE PARTICIPANTS

John Mills  
ICR - Senior Managing Director

Bruce Cazenave  
Nautilus, Inc. - CEO

Bill McMahon  
Nautilus, Inc. - COO

Sid Nayar  
Nautilus, Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Frank Camma  
Sidoti & Company - Analyst

Lee Giordano  
Sterne, Agee & Leach - Analyst

Rommel Dionisio  
Wunderlich Securities, Inc. - Analyst

Ian Corydon  
B. Riley & Co. - Analyst

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Nautilus’ conference call to discuss the acquisition of Octane Fitness. Participants on the call from Nautilus are Bruce Cazenave, Chief Executive Officer; Sid Nayar, Chief Financial Officer; and Bill McMahon, Chief Operating Officer. We issued a press release announcing this acquisition earlier today, and it may be downloaded from our website at Nautilusinc.com on the Investor Relations page. In addition, we have posted a presentation to accompany today’s call. The presentation is on our website at Nautilusinc.com as well, and you can access the presentation by clicking on the Investor tab at the top of our homepage. Then click on Events and Webcasts, which is on the left-hand side of the Investor page. And then you will see the presentation listed under Events and Presentations.

Remarks on today’s conference call may include forward-looking statements within the meaning of the securities laws. These statements include statements regarding anticipated synergies, earnings accretion, and other benefits of the acquisition of Octane Fitness, current trends or anticipated future financial and operating results for Nautilus, Octane, or the combined Company, future business performance of Nautilus, Octane or the combined Company, anticipated results of new product and channel development initiatives, and forecasts related to sales performance generally or in relation to specific products and markets. Factors that could cause Nautilus’ actual results to differ materially from these forward-looking statements include costs associated with the acquisition, failure to achieve anticipated benefits of the transaction or to successfully integrate the Octane Fitness business, and adverse reactions to the acquisition by employees, customers, suppliers or competitors of either Octane Fitness or Nautilus. For more information about these risks, please refer to our quarterly and annual report filed with the SEC, as well as the Safe Harbor Statement in today’s press release.

John Mills  - ICR - Senior Managing Director

Thank you. Good afternoon, everyone. Welcome to Nautilus’ conference call to discuss the acquisition of Octane Fitness. Participants on the call from Nautilus are Bruce Cazenave, Chief Executive Officer; Sid Nayar, Chief Financial Officer; and Bill McMahon, Chief Operating Officer. We issued a press release announcing this acquisition earlier today, and it may be downloaded from our website at Nautilusinc.com on the Investor Relations page. In addition, we have posted a presentation to accompany today’s call. The presentation is on our website at Nautilusinc.com as well, and you can access the presentation by clicking on the Investor tab at the top of our homepage. Then click on Events and Webcasts, which is on the left-hand side of the Investor page. And then you will see the presentation listed under Events and Presentations.

Remarks on today’s conference call may include forward-looking statements within the meaning of the securities laws. These statements include statements regarding anticipated synergies, earnings accretion, and other benefits of the acquisition of Octane Fitness, current trends or anticipated future financial and operating results for Nautilus, Octane, or the combined Company, future business performance of Nautilus, Octane or the combined Company, anticipated results of new product and channel development initiatives, and forecasts related to sales performance generally or in relation to specific products and markets. Factors that could cause Nautilus’ actual results to differ materially from these forward-looking statements include costs associated with the acquisition, failure to achieve anticipated benefits of the transaction or to successfully integrate the Octane Fitness business, and adverse reactions to the acquisition by employees, customers, suppliers or competitors of either Octane Fitness or Nautilus. For more information about these risks, please refer to our quarterly and annual report filed with the SEC, as well as the Safe Harbor Statement in today’s press release.
Nautilus undertakes no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after they were made or to reflect the occurrence of unanticipated events unless otherwise indicated. All information and comments regarding Nautilus’ operating results pertain to its continuing operations. With that, it's 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. As John mentioned, we have provided a presentation to accompany our remarks, which you could access on our website under the Events and Presentation tab in the Investor section. If you’re following along with the presentation, you will see the outline for our call today on slide 4.

I will start by providing a brief perspective on the overall strategy through the search process and the highlights of our interest in Octane Fitness. Then I will turn the call over to Bill McMahon and Sid Nayar to provide an overview of the Octane Fitness business, the strategic fit within Nautilus’ goals, and highlights of the transaction. Finally, Sid will discuss how this acquisition is very well aligned with our long-term growth goals we have set for our Company. I will conclude our remarks and then we will open up the call for your questions.

Note that we will not be commenting or addressing questions regarding the Q4 or full-year 2015 operating results, as we need to complete our normal quarter-end financial closing process. As mentioned in today's press release earlier, we do plan to pre-announce preliminary unaudited results for that period in two weeks and will have another investor call at that time.

As many of you know that have been following our Company, the growth and financial strength of the business has enabled us to be active in M&A as part of our overall strategic capital deployment priorities. We have been evaluating potential acquisition opportunities for over a year now, and we're extremely selective in that process. Over 100 companies were evaluated to varying degrees against set strategic criteria. We only consider companies that, one, align well with our strategic direction and identified growth opportunities; two, exhibited ability to deliver innovative high quality products consistently; three, would contribute to enhancing our financial metrics; and four, had a culture that would complement the strong culture and values of Nautilus. This last criteria was a very important limitor and is what I've referred to in the past as the oil in our engine that enables our success.

We found all of these plus some with Octane Fitness. Now let me turn the call over to our Chief Operating Officer, Bill McMahon, to give you an overview of the Octane Fitness business. Bill?

Bill McMahon - Nautilus, Inc. - COO

Thank you, Bruce. As you can see starting on slide 6 and 7 of the presentation, Octane Fitness is a leading fitness brand based in Brooklyn Park, Minnesota that has a strong history of innovation in low impact cardio products built for the specialty vertical and commercial markets. The reason why we’re so excited about the fit are highlighted on slide 8. The strategic rationale underlying this deal is very compelling, and starts when you consider that it will be meaningfully accelerate our strategic growth initiatives, including extending Nautilus offerings into higher price point products, penetrating new channels of distribution, and expanding our international market access points. Pure incremental growth-oriented synergies are created, as there's little to no current overlap between the Nautilus and Octane Fitness businesses. And it gives us significantly enhanced innovation and product development capability. Rounding it out is the strong cultural fit Bruce mentioned. And shortly, Sid will take you through how we believe this deal will support our overriding objective to enhance shareholder value.

Now on slides 9 and 10, you'll see some detail as to how the addition of Octane opens up new distribution capabilities, enables us to quickly achieve our stated desire to access broader and more diversified channels of distribution. Octane has strong market position in the specialty market and a world-class product quality reputation. Achieving this same level of results would have taken Nautilus several years to accomplish otherwise.

Slide 9 illustrates how this acquisition adds new revenue streams for the specialty and commercial segments to Nautilus overall. This center pie chart shows how the combined entity will have improved balance in terms of those sources of revenue. It is important to note that all of our...
go-forward key channels, direct, retail, and specialty commercial have opportunity for growth, and we will focus our combined product development capabilities on the most promising projects.

Slide 10 highlights the improved international sales created by this acquisition. It’s fair to note that the international market is still relatively untapped for both companies, but Octane brings some immediate relationships that enhance the existing Nautilus initial efforts into the international market. We know that the combination of our teams will bring more capability and credibility to global markets. In regards to these expanded channels of business, please note that Octane’s operating margins have been comparable to, or better than, Nautilus’ own operating margin. Thus, we feel confident that these channels are consistent with our desire to grow profits and not just revenue.

Slide 11 illustrates that the opportunities for cross-selling into leverage common investments are significant. Through our due diligence process we discovered that there are potentially even more of these opportunities than we originally thought.

Now, earlier in the call, Bruce talked about the importance of a strong cultural fit. And these factors are highlighted on slide 12. Since our first meeting with the two founders of Octane, Tim Porth and Dennis Lee, and in continued discussions over the past year, we kept saying to ourselves, these guys think and operate just like us. Tim and Dennis built a thriving Octane business by emphasizing product innovation, quality, and service excellence. We look forward to having them join the Nautilus management team. And a key element of this deal was their enthusiasm to join us and stay with our team going forward. Now I’d like to turn the call over to our Chief Financial Officer, Sid Nayar, who can take you through some of the financial aspects of the transaction. Sid?

**Sid Nayar - Nautilus, Inc. - CFO**

Thank you, Bill. As Bruce previously stated, one of the required criteria we had through the process in addition to the strategic rationale, was that an acquisition met the rigorous financial filters we had developed from both a revenue and operating income perspective. Our disciplined approach to growing operating income at a faster pace than revenue growth through gross margin improvement and G&A leverage is mirrored in the approach that Octane has taken to expand their business.

Slide 13 provides a quick summary of the financial metrics. Octane’s three-year revenue growth has averaged in the low double digits, with EBITDA growth in the mid to high teens. While purchase price accounting details are still being evaluated, we are projecting this deal to add $0.15 to $0.17 in EPS from continuing operations in 2016, resulting in the potential for both immediate and longer term shareholder value enhancement. We are also confident of successfully integrating both companies. While there’s plenty of work ahead of us, the asset-like model and business operations of both companies from outsourced manufacturing to the lean G&A infrastructure will minimize any disruptions.

The next slide, slide 14, provides a quick recap of the key financial elements of this transaction that closed on December 31, 2015. The purchase price of $115 million, subject to normal working capital and cash adjustments, is being financed with a combination of cash on hand and $80 million from proceeds of a five-year term loan. The term loan amortizes monthly over the five-year period. The EBITDA multiple on this purchase price is approximately 10.5 times based on the trailing 12 months EBITDA, and approximately 9.2 times on next 12 months EBITDA. We have locked in an interest rate of approximately 2.7% per annum on this term loan, with year one interest expense estimated at $1.9 million.

I would also note that we plan to book transaction costs related to this acquisition during Q4 2015, in addition to other one-time expenses we highlighted in the press release, totaling an estimated $0.11 to $0.12 per share. As Bruce indicated, we intend to provide more details related to these charges on our Q4 unaudited update release call scheduled for January 19, 2016.

In summary, this deal is consistent with our previously outlined growth driver strategies, our targeted long-term operating metrics, and the priorities we’ve outlined relative to our capital deployment strategy and discipline. As you can see on slide 16, the Octane acquisition supports every one of our plus growth drivers. Our continued growth and expansion in the retail channel will be enhanced through development of higher price point products. Octane’s brand presence, reputation for customer service excellence, and focus on quality will provide the strong platform needed to accelerate the expansion of Nautilus products into new distribution channels and higher end-user markets.
We see significant added potential for the new product pipeline, given the combined strength of two very talented product development and design teams. Our commitment to enhance our international footprint is accelerated, given Octane’s global distribution coverage and channel exposure. Finally, this deal broadens our presence in the fitness market and diversifies our revenue stream.

Moving to slide 17, that illustrates our previously communicated long-term targeted operating metrics for revenue and operating margins. The addition of Octane Fitness will serve to enhance these metrics, and we plan to update our targets during Q1 2016.

On slide 18 is a recap of the capital deployment priorities that we’ve previously outlined. Even following this acquisition, we will have a very solid balance sheet and the ability to continue executing on each of these investment initiatives, whether it be pursuing additional M&A opportunities to ongoing stock buybacks. Our debt-to-EBITDA ratio will be modest at approximately 1.5 times, and declining with the monthly amortization of the loan. Now I’d like to turn the call back over to Bruce for summary comments. Bruce?

Bruce Cazenave - Nautilus, Inc. - CEO

Thank you, Sid. I can’t express how pleased we are to have found a match like Octane Fitness. As mentioned, and as you can see on the final slide, the hurdles for our search were extremely high, and rightly so. The last thing we’d want to do is to get sidetracked and potentially disrupt the strong momentum in our business. By adding Octane Fitness, which has strong momentum on its own, to our portfolio, we are adding a few more cylinders to the engine I mentioned earlier. As we enter 2016, we will focus on successfully executing our respective strategies while simultaneously integrating those strategies, as appropriate, to take advantage of newly available complimentary strengths and build for the future.

It was pleasant to see that as we communicated the news earlier today to all of the existing and new members of the Nautilus employee family worldwide that there is unilateral excitement to join in and begin to realize what is now possible, given the new opportunities available to the combined companies. That concludes our remarks. We will now -- ready to open up the call for your questions. Operator?

**QUESTIONS AND ANSWERS**

Operator

(Operator Instructions)

Our first question comes from the line of Frank Camma with Sidoti & Company.

Frank Camma - Sidoti & Company - Analyst

Good afternoon, guys.

Bruce Cazenave - Nautilus, Inc. - CEO

Hi, Frank.

Frank Camma - Sidoti & Company - Analyst

A couple questions here. Could you talk about -- I mean, I can see how this is obviously going to expand your channels. And you talk about the specialty channels that Octane is in, and what historically has kind of, I don’t want to say prevented you from going into those channels. But what made them either less attractive, or how this in fact, like, helps your legacy business into that channel?
Bill McMahon - Nautilus, Inc. - COO

Well, Frank. This is Bill. Specialty has been a channel that we wanted to get back into for some time now. And it really came down to sort of a make versus buy decision here. We had the opportunity to partner with somebody like Octane who has strong position and reputation in that channel as opposed to trying to break our way in over time through continued product development. And either path I think would have worked, but this path greatly accelerates. Now, why do we want to be there? It's a good-sized channel with healthy margins and profitable business. So those are areas we're looking to get into. Anywhere where we can go where there's a fair probability of not just growing revenue but doing so in a profitable way and accretive way is definitely a target we're interested in.

Frank Camma - Sidoti & Company - Analyst

And it looks like the average retail prices here are much higher. I was just wondering if you could talk a little bit about that and how -- what would you have to do to your existing products to make them suitable for that channel?

Bill McMahon - Nautilus, Inc. - COO

Well, I think that it always comes down to product specs. So you need to meet certain specs. Those higher price points are definitely professional grade or commercial grade products. And so while the cost is -- or the price is higher, so is the cost to make the products. So again, that's an advantage of working with our new partners at Octane is that they have expertise in-house on what it takes to succeed in that area. And so we just need to combine our innovative -- innovation platforms and then have the right product specs and the right build. So it really is about design and manufacturing, but these are not insurmountable obstacles. But it definitely helps to have people who have been there/done that and are doing it today successfully on the team.

Frank Camma - Sidoti & Company - Analyst

Okay. And final question, just if you could talk at all about sourcing? And is there any, I mean, maybe not right away, but like, sourcing opportunities with the combined purchasing power of the two companies and how that would affect your cost of the products?

Bill McMahon - Nautilus, Inc. - COO

Potentially, I think there's other moving factors right now in terms of product cost including currency. But Octane's products are sourced in Asia just as ours are, so there's always opportunities to look for buying power there. But even beyond that, we're going to explore everywhere, which includes freight costs, does the combined entity have better rate volume? We have some favorable, since we do so much direct-to-consumer, I believe we have favorable shipping rates within the US. So I think we're definitely going to take a close look at everything related to logistics and supply chain, and really look at what's the best practices, what's the best way to do this, and how do we best optimize our cost structure?

Frank Camma - Sidoti & Company - Analyst

And could you take a brand like Octane into direct channel, or would that not make sense since you basically use the Bowflex brand?

Bill McMahon - Nautilus, Inc. - COO

I think Bowflex is so powerful and direct we would be inclined to use the Bowflex name in direct. But any product we make, we start with making a compelling product and then we determine, well what's the brand that fits with that compelling product that tells the story best? So I'm not going to say no to that. I'm just going to say we would be more inclined to stay with Bowflex in direct.
Frank Camma - Sidoti & Company - Analyst
Thanks guys.

Bruce Cazenave - Nautilus, Inc. - CEO
Thank you, Frank.

Operator
The next question comes from the line of Lee Giordano with Nautilus (sic).

Lee Giordano - Sterne, Agee & Leach - Analyst
Hey, guys. It’s Lee from Sterne Agee.

Bruce Cazenave - Nautilus, Inc. - CEO
Hi, Lee.

Lee Giordano - Sterne, Agee & Leach - Analyst
Could you talk a little more about the opportunity you see on the commercial side of the business? I know you exited commercial in 2011. This looks like gets you back into that channel. Won't be a huge part of your mix, but do you see opportunity there along with the specialty and the higher price points? But how do you view the commercial in particular?

Bill McMahon - Nautilus, Inc. - COO
Yes, I think this was something – Lee, this is Bill again. We looked closely at this as part of M&A. Commercial is part of Octane's business. They make commercial quality product, sell it specialty and vertical, and some of that product ends up directly in some clubs. It’s not that we’re opposed to commercial. What we like is the model that Octane pursues where it’s outsourced manufacturing. They are targeting very specific product modalities. So therefore within certain product modalities it’s pretty profitable to be where they’re at. So we’re not opposed to that. As long as it’s a market or products that we feel like we can make money on and are less commoditized, we are in favor of pursuing those opportunities.

So to your question, certainly there could be some additional opportunity in commercial for us. But as you know, we do have a license partner on the strength side. And so we wouldn't want to be in the business of overly competing with our license partners at all. On the other hand, we think right now we're sort of in very targeted areas that don't step on each other's toes.

Bruce Cazenave - Nautilus, Inc. - CEO
Yes, I would add too, Lee, to what Bill's comments are that we have products in our portfolio today that could be upgraded, I mean significantly upgraded to penetrate the commercial, pure commercial market. And now we have a partner from a development resource standpoint that could actually take those products and develop them for us. So that's plus business. And again fits into the unique modality kind of approach that Bill alluded to.
Lee Giordano - Sterne, Agee & Leach - Analyst

Got it. And then looking at it the other way, do you see opportunity for taking any of Octane's product portfolio and putting that into your retail distribution with either the mass guys, or would that work at all as you see it today?

Bill McMahon - Nautilus, Inc. - COO

Well, I think the price points certainly don't work currently and we would not want to create an environment with the current product where we compete against our valued specialty partners. On the other hand, the two combined teams are constantly thinking of modalities and innovation. And I think together we do have some ideas in the pipeline that we'll decide what are the best markets to go into. But I wouldn't look to see us take existing specialty product and try to down price it into the mass retail.

Lee Giordano - Sterne, Agee & Leach - Analyst

Great. And then Sid, I think I just missed the numbers. Can you repeat for me the interest rate on the term loan and the interest expense that you expect for 2016?

Sid Nayar - Nautilus, Inc. - CFO

Yes. So we're locked into 2.7%, just approximately 2.7% on the interest rate. And the year one interest expense would be $1.9 million. Obviously that will decline each year with -- we've got it amortizing out monthly.

Lee Giordano - Sterne, Agee & Leach - Analyst

Great. Thanks so much.

Bruce Cazenave - Nautilus, Inc. - CEO

Okay. Thank you, Lee.

Operator

The next question comes from the line of Rommel Dionisio with Wunderlich Securities.

Rommel Dionisio - Wunderlich Securities, Inc. - Analyst

Thanks. Good afternoon. I noticed that about 38% of sales for Octane is coming from the commercial channel. And I know you guys had exited commercial a few years ago. I just wonder if you could chat about that business, and if you see that going forward as potentially expanding your current portfolio back into that channel? Or if you could chat about that for a second. Thanks.

Bill McMahon - Nautilus, Inc. - COO

Hi, Rommel. Bill again.
Hi, Bill.

Again, as we just made a few comments on, we’re not opposed to the commercial channel overall. We’re in favor of the commercial channel where it’s profitable, or targeted modalities. And Octane has done a great job of -- they have a unique low, zero impact cardio products that meet a specific niche in the commercial segment. And as Bruce just mentioned, we do have some of our own modalities where we may want to look at, is it possible to take those up into even certainly specialty if not commercial? And we’ll be doing that together and evaluating those options over the next year. So I’d say it’s possible. But in all cases we would look to stay in sort of the unique solution side of the commercial business, and with a strong foundation in specialty and vertical.

Okay. And maybe just a quick housekeeping question for Sid. Sid, is it possible to share with us just sort of a rough range of where D&A might be for 2016 and beyond, or is it too early for that?

Yes. So I think what we can talk about is depreciation, we think is going to be in the neighborhood of $1 million a year. But we’re still in the process of assessing how the purchase price accounting will impact amortization. So that is something that maybe we can give a little more color later on.

Okay, fair enough. Congratulations on the transaction. Thanks.

Thank you, Rommel.

The next question comes from the line of Ian Corydon with B. Riley & Company.

Thank you. Just curious how long you think it takes to start realizing some of the synergies that you talked about today?

I think that financially, as Bill -- or I'm sorry, Sid alluded to, there will be some immediate accretion in terms of EPS, et cetera. As far as taking advantage of the synergies, I think the first year we're going to spend looking at what are the right things to do to bring our strategies together and what the opportunities might be. The nice thing is that there isn't any overlap, as we've stated, Ian. And that actually Octane had some aspiration to move down into the price point grade that we were planning to move up into. So from that standpoint, that's all development work. There will be some synergies to be gained in terms of development and resources and efficiencies.
But we will first and foremost be making sure that there aren't any redundancies, that they're working on things that we are also working on that we should jointly work on together. That will be kind of one of the first things that we attack. And then we'll be introducing our teams, really over the next 30 days, at different points, everything from product development to marketing, sharing what each of us are doing, best practices. And then we can lay out a plan that, frankly, I would expect would be over the next two years, and that includes supply chain, by the way, commonalities. Over the next two years laid out in a very diligent fashion, okay this is how we think we could -- what we could look like after two years in terms of taking advantage of some of the synergies that are available to us. So I'd say that if you want a quick answer, I'd say don't expect a whole lot in 2016. But then would be positioning ourselves to take advantage of some more of those synergies as we roll into 2017.

Ian Corydon - B. Riley & Co. - Analyst

Got it. That's helpful. And it sounds like what I'm hearing is the biggest opportunity is to extend some of the Nautilus brands into specialty, is that right? And then within specialty, maybe you could just talk about some of the specific markets that you think are the biggest opportunities, and which of your brands might be the best fit?

Bill McMahon - Nautilus, Inc. - COO

Sure, Ian. This is Bill. In the specialty space, Octane's been extremely successful focusing on what they call zero impact products, which are primarily elliptical-based products, although the zero runner is a great example of a new modality that they've done an incredible job of bringing to market. So I think we're always looking at categories that exist in the specialty space that there is currently no presence. A good example of that is our 80 Pro Bike, or Schwinn Fan Bike that we just introduced ourselves. And we'll certainly look at other cardio products within the specialty space, which includes traditional products like treadmills and maybe some other bikes. We haven't firmed up on that but those are the areas that have a lot of expansion that we could look at.

Ian Corydon - B. Riley & Co. - Analyst

Got it. Thank you.

Bruce Cazenave - Nautilus, Inc. - CEO

Thank you, Ian.

Operator

(Operator Instructions)

The next question comes from the line of Andrew Burns with D.A. Davidson.

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

Good afternoon and happy New Year. Looks like a great acquisition here. Two-part question here. Can you just define the vertical piece of the business? When I go to their website you can buy directly from Octane, which looks similar to your direct business. Which leaves me to the second part, which is are there areas of expertise in terms of content creation or marketing strategies that you've developed in your direct which you believe can be applied to Octane's business model?
Sure, Andrew. I think there’s quite a bit there. But to start with the first part of your question in terms of what we call vertical. Vertical to us would be multi-user environments that aren’t necessarily dues-paying clubs. So it’s a term we use, and I don’t know if it’s industry standard, but it’s what we call if you think about it your condo complexes that have shared gyms, some of your non-dues paying multi-user environments like hotels, etcetera. We call those vertical.

And generally those markets are primarily supported through specialty dealers. So these dealers that both run their own stores, but a lot of times they are selling into these multi-user environments. So there’s a nice bit of co-mingling or synergy there if you’re making products that are at the higher end, the specialty higher end quality environment, they are generally good for multi-user as well. So hopefully that clarifies that.

In terms of what we can bring to the table for Octane, I definitely think our ability for content creation marketing and e-commerce are strengths of Nautilus. And we’ve already had some preliminary discussions on what’s possible there, and it’s definitely something we can bring. So in the bigger picture to us, it’s enhancing our product development capabilities, taking a company that they themselves have an incredible innovation heritage that they’re bringing to co-mingle with us. And then we certainly have what I would consider world-class direct marketing and marketing capabilities in-house here, especially compared to the fitness industry. I think you roll that together, and we’re pretty excited to see what we can do with this going forward.

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

Great, thanks. And I’m sure you don’t want to give too many product details, but can you give us a brief overview in terms of what their most popular lines are? Say the tread climber and max trainer-type products for this company, just to get a better sense of the portfolio?

Bruce Cazenave - Nautilus, Inc. - CEO

Well, as you know we don’t give details in terms of product category performance, Andrew. But I’ll tell you in general that Octane has a very nice balance between modalities. And think of it as generally elliptic-based systems, but they’re standing, seated, and some other unique modalities like zero runner. And if you combine their products across the board, they have a pretty good balance across all their modalities. There aren’t any runaway products that they’re wholly dependent on for their success.

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

Thanks. And one last quick one, just in terms of the international opportunity. How quickly can that develop where you’re benefiting from their international network and relationships and vice-a-versa? Thanks.

Sid Nayar - Nautilus, Inc. - CFO

I think I’d like to hold that question until we get into it a little bit further, Andrew. But I think there’s some immediate things that can be done. Our teams are still, as I alluded to earlier on a question, are getting to know each other in terms of whose calling on what customers around the world with what distributors. So we kind of have to match that all up on the board and see where it makes most sense to proceed optimally going forward. But I would suggest that, again in the spirit of most other things here, there isn’t a lot of overlap. So we will be able to pick up with the wind already that they’re generating and likewise, we might be able to help increase penetration with some of the distributors that we have they do not have. So I think it might be actually one of the things that could come in sooner than other, but I reserve comment on that until we understand each others’ international business a little bit better.
Okay, thanks and good luck.

Sid Nayar - Nautilus, Inc. - CFO

All right. Thank you, Andrew.

Bruce Cazenave - Nautilus, Inc. - CEO

Thanks, Andrew.

Operator

We will be taking no more questions at this time. I'll now turn the call back over to you, Bruce Cazenave. Please proceed with your closing remarks.

Bruce Cazenave - Nautilus, Inc. - CEO

Okay. Thank you, operator. We appreciate everyone taking the time to join us today as we embark upon the next phase of our strategic journey. As a reminder and as noted in our press release, we will not be attending the ICR conference this year, but we hope that you can join us on our next call on Tuesday, January 19. I hope everyone has a great rest of the day. Thank you very much.

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.