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Nautilus, Inc. (NLS)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Nautilus, Inc. Fourth Quarter 2023 Earnings Results Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, today's event is being recorded.

I would now like to turn the conference over to Mr. John Mills with ICR. Please go ahead, sir.

John F. Mills

Managing Partner, ICR LLC

Thank you. Good afternoon, everyone. Welcome to Nautilus' fourth quarter and year-end fiscal 2023 conference call. Participants on the call today from Nautilus are Jim Barr, Chief Executive Officer; and Aina Konold, Chief Financial Officer. Please note, this call is being webcast and will be available for a replay for the next 14 days. We will be happy to take your questions at the conclusion of our prepared remarks.

Our earnings press release was issued today at 01:05 PM Pacific Time and may be downloaded from our website at 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 measures. Please note, unless otherwise stated all comparisons in this call will be against our results for the comparable period of 2020.

For today's call, we have a presentation that management will refer to during their prepared remarks. On slide 2 is our full Safe Harbor statement, which we ask everyone to read. You can access the presentation now by going to nautilusinc.com, then click on the Investors tab and then click on the Events & Webcasts, and the presentation will be there for your viewing.

I'd like to remind everyone that during this conference call, Nautilus management will make certain forward-looking statements. These forward-looking statements are based on the beliefs of management and information currently available to us as of today. Such forward-looking statements are not guarantees of future performance, and therefore, one should not place undue reliance on them.

Our actual results will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control and ability to predict. For additional information concerning these factors, please refer to the Safe Harbor statement and to our SEC filings, which can be found in the Investor Relations section of our website.

And with that, it is my pleasure to turn the call over to Nautilus' CEO, Mr. Jim Barr.

James Barr

Chief Executive Officer & Board Member, Nautilus, Inc.

Thank you, John, and thank you all for joining us. I would like to begin by highlighting four key topics we'll be focusing on during today's call. First, by leveraging our Direct business and through strong cost control, we delivered Q4 and fiscal 2023 results significantly better than our guidance provided in February.

Second, we have taken deliberate actions to strengthen our balance sheet and sharpen our focus, which better positions us to navigate the current environment.

Third, we expect our efforts to drive free cash flow and return the company to profitability, resulting in significant year-over-year improvement in Adjusted EBITDA for the full year fiscal 2024.

Finally, we remain confident in the long-term industry opportunity and our own position due to our leading brands, comprehensive equipment portfolio and omni-channel approach as we continue on our path to becoming a leader in connected fitness.

Our fourth quarter and full year results demonstrated our ability to navigate industry and broader macro challenges. For fiscal year 2023, we delivered net sales of $287 million, including Direct net sales of $139 million, 16% growth versus fiscal year 2020. Strength in Direct was driven by demand for our broad portfolio of strength and cardio offerings.

In the fourth quarter, we delivered net sales of $68 million, including Direct net sales of $42 million as we continue to see a return to pre-pandemic seasonal trends. Within Direct, we saw momentum in strength, which was up 22% in the quarter versus Q4 fiscal 2020, reflecting the enhancements we made to our offerings in this category.

On the bottom line, our operational excellence efforts enabled us to deliver Q4 and fiscal year 2023 Adjusted EBITDA above expectations. The core focus of our operational excellence is centered around inventory management and per our plan, we continued to significantly improve our inventory position in the fourth quarter. We feel very well positioned as we enter our seasonally softer months to provide our customers the products they want, when they want them and where they want to buy them.

I'm proud of our continued momentum on scaling our differentiated digital offering as we exceeded our growth targets for JRNY Members. We added more than 61,000 JRNY Members in Q4 and ended the fiscal year with approximately 508,000 JRNY Members, growth of 56% year-over-year. Of these members, 156,000 were subscribers, representing 41% growth year-over-year.

We are encouraged to see that sell-through to consumers [ph] are progressing (00:05:39). However, retailers continue to take a conservative approach across the home fitness category in light of the macroeconomic environment. We expect this to continue through the first half of fiscal 2024.

As a result, we took proactive measures to reset the cost structure of our business during the fourth quarter, which are expected to yield $30 million in cost savings on an annualized basis. We remain committed to our omni-channel approach. We have been successful in doubling our Direct segment market share since 2020 and we believe Retail will remain an important long-term component of our business model when market conditions improve.

To further enhance our ability to navigate near-term industry challenges, earlier this month, we announced several actions to enhance our balance sheet. This included the sale of non-core assets, including the Nautilus brand trademark assets and related licenses for about $13 million. This enables us to continue to streamline our focus on our top brands and improve our debt position as we leverage the net proceeds to pay down part of our term loan. The sale of the Nautilus brand reflects a deliberate strategic branding approach we announced two years ago and will have minimal ongoing impact.

Our Bowflex, Schwinn and JRNY brands generate over 95% of our revenue. We are in the process of reevaluating our corporate brand identity and look forward to updating you on our plans in the future.

Additionally, as Aina will discuss later, subsequent to the quarter end, we further improved our liquidity by amending our credit agreements. The sale of non-core assets, amendments to our credit agreements and substantially improved inventory position provide us with enhanced liquidity and a stronger balance sheet. At the same time, our comprehensive review of strategic alternatives is ongoing.

Our board remains focused on identifying partner opportunities to accelerate the company's strategic transformation and enhance shareholder value. We have no additional information to share regarding this process at this time.

Looking ahead, we remain confident in the long-term industry opportunity. Our research continues to show the steadiness of the shift to home exercise as a result of changes in long-term workout habits favoring home fitness and the strong opportunity with connected fitness. We have made significant progress over the last two years on our long-term strategic transformation under our North Star strategy, which we believe will make the company stronger as our industry normalizes post pandemic.

Today, I want to highlight our progress on three key areas. Under our consumer-first mindset, we have implemented better consumer segment targeting and optimized our media mix, which is driving enhanced return on advertising investment. We are seeing the benefits of this in our demand for our equipment, particularly our fast-moving top sellers. This is highlighted by the strength of our Direct business, where we have the strongest visibility into end-user demand and we are excited to have an exciting pipeline of new product offerings and refresh Bowflex branding to be introduced in fiscal 2024.

We are achieving our transformative goal to turn supply chain into a competitive advantage. In addition to tangible gross margin improvement via lower landed product costs, we have significantly enhanced our delivery times to retailers, permitting them to order closer to when they need the product, and we are rolling out a better last-mile delivery process for our Direct consumers.

We are also making significant progress in scaling a differentiated digital offering. Tangible results include transitioning our cardio portfolio to connected fitness as an installed base for JRNY, introducing vision and motion tracking technologies to our strength portfolio, enabling members to receive personalized, real-time form coaching and rep counting using their mobile devices.

This quarter, we introduced a lower-priced digital offering for members who only wish to use JRNY on their mobile devices. We've built JRNY connected fitness experiences to be consumed across our equipment portfolio and off equipment so that anyone can experience the benefits of connected fitness. This has resulted in achievement of our 500,000 member goal.

We have laid strong foundation for JRNY, delivering continued total member growth. Because we have already built so much of what I just mentioned, we've been able to reduce near-term spend on JRNY and keep connected fitness experiences much more affordable than our key competitors, especially important in a volatile economy.

Moving forward, we'll continue to focus on making advancements in quality and adaptive personal training, which we believe will drive engagement and support for conversion to paid Subscribers over time.

I would now like to touch on our fiscal 2024 outlook. At the same time that we're seeing a reversion to pre-pandemic seasonality of demand, the macroeconomic environment has continued to be difficult causing our retail partners to maintain their conservative inventory positions. We are navigating these industry challenges by taking steps to operate more efficiently and enhance our balance sheet.

While significant uncertainty remains in top line for fiscal 2024, especially in Retail, we believe that a continued focus on our equipment business, our Direct business and operational excellence efforts, including cost control and margin enhancement create a clear path back to profitability. As such, we are guiding to a significant year-over-year improvement in Adjusted EBITDA for the full year of 2024.

I will now turn it over to Aina, who will give us more detail on the fourth quarter and full year results and our fiscal 2024 guidance. Aina?

Aina E. Konold

Chief Financial Officer, Nautilus, Inc.

Thank you, Jim, and good afternoon, everyone. Today, I'll be speaking to total company results for Q4 fiscal year 2023 and will provide guidance for full year fiscal year 2024. Please go to our website to view our press release and slides for additional information on Q4 and full year results.

Turning now to slide 9, total company P&L results for the quarter. In addition to comparing this year's revenue to last year, we'll also be comparing to more normalized pre-pandemic results in fiscal year 2020.

Additionally, as we disclosed on May 2, we've made progress this past quarter on our previously stated strategy of rationalizing our brand portfolio by selling the Nautilus brand. We took advantage of fitness season demand and sold through a significant portion of our Nautilus branded inventory.

Net sales for the fourth quarter were $68 million, down 43% versus last year and down 19% versus the same quarter in fiscal year 2020, excluding Octane. Versus fiscal year 2020, Direct declined by about 12%, driven by cardio as strength was up 22%. Retail was down 29% as retailers continue to be more conservative with their inventory purchases given the macro environment. Gross profit was $11 million and gross margins were 16%, down about 2 points from LY.

I'll now go through the drivers of the gross margin decline. 250 basis points were due to increased discounting driven by the decision to exit Nautilus branded product. 200 basis points were due to higher outbound freight impacted by increased sales of Nautilus branded treadmills. 150 basis points deleverage in logistics overhead. Although we spent less in absolute dollars year-over-year, total company sales declined more than costs, resulting in deleverage.

Costs are lower because we closed the Portland DC and exited incremental storage locations needed to house excess inventory. 60 basis points of deleverage related to JRNY COGS. Similar to logistics overhead, while year-over-year dollar spend is down, total company sales declined more than costs, resulting in deleverage. These margin declines were offset by 500 basis points of expansion due to lower landed product costs.

In the US, we've now cleared through older inventory that was burdened by pandemic-related detention and demurrage and higher inbound freight. New imports are benefiting from our efforts to optimize our freight [ph] inhibition (00:14:33) network, resulting in lower inbound freight.

Additionally, we've negotiated lower factory costs for our top SKUs. Excluding Nautilus branded products, Q4 2023 net sales would have been $62 million and Q4 2023 gross margins would have been 20%, 250 basis points higher than last year.

Turning now to adjusted operating expenses. The next few lines of the P&L have been adjusted to exclude acquisition and other costs related to the purchase of VAY, as well as restructuring and exit charges. Please see our press release for a reconciliation to GAAP.

Adjusted operating expenses were $25 million, down $17 million or 40% versus last year. The key drivers of the decrease were $10 million less in advertising, which was $5 million this year versus $15 million last year, $4 million decrease in personnel expenses and $2 million decrease in contracted services related to the reduction in force we implemented in February 2023, and about $1 million decrease in variable selling and marketing expenses. Excluded from adjusted operating expenses are restructuring and exit charges of about $2.5 million in Q4.

Adjusted operating loss was $15 million this year compared to $21 million last year, an improvement of $6 million. And Adjusted EBITDA loss was $12.6 million compared to $16.9 million last year. Excluding the impact of selling Nautilus branded product at deep discounts, Adjusted EBITDA loss would have been $10.6 million.

Turning now to the balance sheet as of March 31. Cash was $18 million, up $4 million versus year-end 2022. Per our plan, inventory was $47 million, down 58% versus March 2022 and down 71% from our peak of $163 million at September 2021. AR was $21 million, and trade payables were $29 million, both down from year-end 2022. Debt was $28 million, and we have $15 million available for borrowing, bringing our liquidity at the end of March to $33 million.

For Q4, free cash flow was positive $29 million, an improvement of $34 million versus last quarter and an improvement of $8 million versus last year. For the year, free cash flow was positive $6 million versus negative $80 million last year, an improvement of $86 million.

Our focus on operational excellence showing this difficult macroeconomic environment is reflected in the meaningful improvement in free cash flow. Additionally, as we reported on May 2, we used the proceeds from our asset sales to pay down part of our term loan and to amend our ABL, both of which improved our overall liquidity. As of May 2, our cash balance was $19 million, while our total borrowings were only $18 million.

Turning now to guidance. We are providing guidance for full year revenue, full year Adjusted EBITDA and year-end 2024 JRNY Members. We're guiding to full year sales of between $270 million and $300 million. We expect retailers to continue being conservative with reorders for the first half of the fiscal year, and therefore, we expect the second half to represent between 60% and 65% of revenue.

Consistent with the typical seasonality of our business, Q1 is expected to be the lowest revenue quarter of the year, as a percent of full year sales is expected to be lower than last year, driven by softness in our Retail segment. With the sale of the Nautilus brand, full year royalty income is expected to be $1.8 million.

We're focused on returning to profitability and are targeting to achieve breakeven adjusted EBITDA for fiscal year 2024. However, given the uncertain macro in our net revenue guidance range, we are guiding to a range of adjusted EBITDA loss of negative $15 million to breakeven.

To achieve breakeven adjusted EBITDA, we need $47 million of year-over-year improvement. $30 million of this will come from lower departmental and logistics facilities costs, resulting from the restructuring that we did in February 2023, which fundamentally changed the overhead of the business. These items will result in lower operating expenses and gross margin expansion as some of these costs are part of COGS. The rest of the EBITDA improvement will come from lower landed product costs, which will result in further gross margin expansion.

In the US, we've sold through the older inventory that was burdened with detention and demurrage, higher inbound freight and the previous factory costs. All of the capitalized detention and demurrage costs have already been released and new inventory is coming in at lower negotiated factory rates and lower inbound freight. Partially offsetting these gross margin gains will be some deleverage in JRNY COGS as fiscal year 2024 dollar spend is planned to be higher year-over-year primarily due to increased depreciation.

At this time, we're not expecting any improvement in the discounting environment. While inventory has been rightsized, our competitors [ph] and retailers (00:19:53) continue to be pressured on the inventory front. So we have planned discounts to be flattish year-over-year.

Lastly, we expect JRNY members to be about 625,000 by year-end fiscal year 2024. Like many other companies, we are preparing for a continuation of the difficult operating environment. We will remain disciplined with managing our inventory and our costs and we will look to flex all available levers to strengthen our balance sheet and ensure that our liquidity remains sufficient.

I'll turn it over to Jim now for his final comments.

James Barr

Chief Executive Officer & Board Member, Nautilus, Inc.

Thank you, Aina.

The short-term challenges of the home fitness industry post-pandemic are well-known. I'm proud of how we've demonstrated strong agility and navigated the difficult operating environment throughout fiscal 2023 and with proactive inventory management and cost actions.

Long-term favorable shift to home fitness is enduring. We excel at equipment and are building and scaling a strong, differentiated digital platform, placing us on the right side of industry trends. Looking ahead, we will continue to take the necessary actions that will best position us to drive cash flow and return to profitability.

I would like to close by thanking our employees for their persistence, positivity and problem solving. Each day, I see more reasons to be proud to be your teammate.

And with that, I'd like to turn it over for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Michael Swartz with Truist. Please proceed with your question.

Michael Swartz
Analyst, Truist Securities, Inc.
Q

Hey. Hey, guys. Good afternoon. Just maybe wanted to touch on the – I'm just trying to think through kind of the moving parts. I know you're benefiting a lot in the fiscal 2024 from cost reductions. But help us understand just in terms of maybe the sale of the Nautilus business and I think you said royalty revenue and presumably income will be lower year-over-year. Maybe just give us a sense of what that actually presents in terms of a year-over-year headwind to revenue and earnings, if that makes sense.

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.
A

Yeah. I can take that.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.
A

Yeah, Aina, you may want to jump in on that one. Yeah.

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.
A

Yeah. I'll take that one. So, the royalty revenue is declining by about $1.6 million. So it's not a big number, and that drops down almost directly to EBITDA. So, it's a reduction in EBITDA that we had to overcome of about $1.6 million. And then for our guidance of adjusted EBITDA, we've excluded any impact from the gain on the sale of the Nautilus brand.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.
A

And then, [indiscernible] (00:22:58) add on that, the Nautilus sales really weren't driving very much. We were kind of end-of-life-ing those. And so, we don't expect there to be much of an impact on the top line of the business. It's all been really driven by Bowflex, Schwinn and JRNY.

Michael Swartz
Analyst, Truist Securities, Inc.

Q

Got you. Okay. Perfect. And then, maybe talk about, I think you had referenced different pricing tiers for JRNY going forward. Maybe just talk about the strategic rationale of doing that and maybe what you expect to gain out of it.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Sure. So, JRNY so far has been priced very, very reasonably at $19.99 a month or $149 a year, but it was essentially one tier of pricing, which meant perfectly great value proposition for people who use our equipment with an embedded screen. That would compare to some competitors, well into the $40 a month, and we are less than half of that. So we are in a good spot there.

But more and more people are using JRNY on just their mobile devices. Either they'll use [ph] – they'll workout (00:24:14) on a floor or they'll now use our strength training where we do rep counting and form coaching. And so when they do that, we wanted to make it more attractive to people who are in that category and were only using us on their mobile devices. And so that is now $11.99 a month and that'd be below what our competitors' digital offering is at.

So it's not a new thing for the industry. It's a new thing for us. And it's really kind of the evolution of our subscription business where you start with kind of one-size-fits-all and then you try to create SKUs that fit different segments of the market. So that's the rationale.

Michael Swartz
Analyst, Truist Securities, Inc.

Q

Okay. And then maybe just one last question, if I can. I guess, within the guidance and maybe be a little difficult to parse this out exactly, but what – I guess what are you embedding or what are you expecting? I know the JRNY Members are expected to be 600,000-plus. But maybe just in terms of the contribution from Subscribers, I guess, what does – I guess what does that look like, if you can on a revenue basis? And should it be profitable in 2024?

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Aina, maybe you want to take that one.

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.

A

I'll try to help you. Let me – because we don't disclose JRNY revenue, but I can tell you it's part of the Direct segment. So that's where you'll see the JRNY revenue.

And then, second, your last question about when will it be profitable. When we did our long-range plan, we thought that in year three of the plan, we would get to JRNY breakeven. And I think given the reduction in the sales that we've experienced in the last year-and-a-half, that's probably been pushed out a couple of years, but we are on path to getting to JRNY breakeven.

Michael Swartz
Analyst, Truist Securities, Inc.

Q

Okay. Great. Thank you.

Operator: [Operator Instructions] Our next question comes from the line of JP Wollam with ROTH Capital Partners. Please proceed with your question.

John-Paul Wollam
Analyst, ROTH Capital Partners LLC

Q

Good afternoon, everyone. And I appreciate you taking my questions. First, maybe if we could just start with the revenue guidance. And just kind of comparing to where we finished here, if we kind of back out the non-core assets or the non-core revenue from this past year. It looks like we look at kind of flattish growth to maybe a little bit positive. And just from a high level, I'd be curious sort of what gives you the confidence that given the tough environment we've had, especially given the tough retail environment, what gives you confidence that this past year may have sort of been the bottom and that we might be rightsizing and kind of on the way up from here? And is there anything kind of of – I don't want you to necessarily go into new products, but anything kind of new or exciting that maybe you can point to that helps get us comfortable around that guidance? Thank you.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Yeah. Aina, why don't you start with that one, then I'll come in with some of the new things we have.

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.

A

Yeah. So JP, you're right. I mean if you kind of look at it year-over-year, it's flattish. It's important for me to just remind everybody, when we sold a lot of Nautilus branded product in Q4, that was – some of it may have been a trade down from customers who may have chosen to buy a Bowflex product. So we don't think it's something that we need to overcome by a lot next year because we gave a really good deal to some customers this year as we were selling through the Nautilus branded product.

Our confidence comes from what we're seeing in our Direct business. We have direct line of sight to what end customers are wanting. We see them respond to our promotions and so we feel really confident in our Direct business. And then for Retail, our expectations is looking at how they're selling down that they will end up reordering in the back half. There will be some retail growth, but it won't be anywhere near what it was in prior years. And Jim, any other things to add to that?

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Yeah. Sure. I'll just – thank you, Aina. I'll just add. We have a really nice array of new products coming out for holiday. We haven't announced them for competitive reasons, but we're very, very excited about them. And then we're coupling that with a rebranding of Bowflex. So, Bowflex is a great brand, everybody knows and loves, but we've been working behind the scenes on a rebranding of that, and that will come out on these new products around that same time.

So the employees here and myself and Aina, we're all very excited about what we've got coming there. We do believe that will drive some growth there. But we've seen the category stabilize in terms of the market size as well. So that gives us a little bit of confidence. But it's all going to be about where the consumer is later in the year. You're continuing to see some strength in our Direct business. We feel like we can control that fairly well.

We've been able to use advertising and promotion to drive sales consistently there. And then we hope that the retailers come back. And we think – we continue to see retailers drive down those inventory balances. I was looking the other day at our [ph] other (00:29:50) retailers' inventory balances, and they're down nearly 50% versus last year, ex-Amazon, who continues to buy more things. But the rest of them combined, minus 50%. So [ph] they worked down (00:30:01) that inventory. And now it's kind of a bet on will they have a confidence to – or how much confidence will they have going into the holiday season to get back to normal reordering.

John-Paul Wollam
Analyst, ROTH Capital Partners LLC

Q

Great. That detail is all very helpful. Maybe kind of that's a good segue into the next question. On sort of your retail partners, any structural changes, terminations of partnerships, anything major to call out there? And then, maybe sort of the opposite of that would be any retail partners that you are finding kind of some newer success with and are having really great conversations and liking what you see? Maybe if you could just kind of give us both spectrums there so that we can better kind of understand the Retail outlook for the year.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Yeah, for sure. Structural changes, no. I mean we are continuing to monitor that. We did have a retailer or two that was not in the fitness category before the pandemic. And as we're on the backside of the pandemic, we're wanting to see what they'll be doing. But so far, we haven't seen any structural differences in that. I mean, even when some of our competitors get added to some of our retail footprint, it's an addition of space, not a subtraction of our space. So, that appears to be intact at least as we are talking today, and we'll keep our eye on that.

In terms of retail partners, yes, we have plenty of conversations with new partners that are getting into the space. Obviously, they're not as big as the current partners we have, and they're dipping their toe into it, but we've got some strong traction with those retailers who aren't as burdened with the past inventory issues that some of the major retailers are dealing with right now. So that is an opportunity. But if you stack those opportunities, they're not super high relative to the very large retailers. But we're seeing traction there. We're excited about that. We like to get into new retailer establishments and we're seeing traction there.

John-Paul Wollam
Analyst, ROTH Capital Partners LLC

Q

Great. Very helpful. And one last just quick one. We had the Nautilus sale, and just kind of curious if you can share. I think you touched on it a little bit in the prepared remarks, but just kind of curious if you can share any updates on sort of where we are with the strategic review. I don't think there's any perhaps major large asset sales still remaining, but anything else you can kind of touch on and highlight that? Maybe has been thought of being considered or just where you are in the process, if there's any updates there. Thank you.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Sure. Yeah, it's a great question. There's no real updates. We do consider the asset sales that I mentioned to be part of this, of what we call Project Everest, which is our strategic review. We think that's an outcome. We don't know if that'll be the last outcome of this. We have no real updates beyond that, but we're not closing it. We're saying it's ongoing, so you can read a little bit into that. But that's all we can say for now.

John-Paul Wollam
Analyst, ROTH Capital Partners LLC

Q

Understood. Thank you all for the time.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Sure. Thanks, JP.

Operator: [Operator Instructions] Our next question comes from the line of Steve Dyer with Craig-Hallum. Please proceed with your question.

Q

Hey. Good afternoon. Ryan on for Steve. Curious on...

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.

A

Hi, there.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Hi, Ryan.

Q

...on the Retail customers. So, Costco jumped into the top 10 or above 10% of revenue in the last quarter. I guess your guidance for this year, does it assume that Costco continues to buy similar to how they did this past quarter?

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Aina, you might want to tackle that one?

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.

A

Jim, do you want me to take that?

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Yes, please.

Aina E. Konold
Chief Financial Officer, Nautilus, Inc.

A

So, our guidance contemplated several scenarios, especially when it came to the Retail segment. So, what I can say, it's kind of similar to what Jim said earlier. There's just some reshuffling depending on how much weighting we give to one retailer versus another.

One thing I would want to call out and remind everybody that all throughout the pandemic, we were really unable to satisfy all retailer demands and some retailers got more of our inventory in the last few years. And now that we're settling into a more new normal, we can more easily kind of handle all the various relationships we have. So even though some of the bigger ones may be declining year-over-year, we have an opportunity to increase sales to some of the smaller ones.

Q

Okay. And then just for my follow-up question. I don't believe you mentioned it, but JRNY, so Members have been growing sequentially every quarter, Subscribers were up a lot year-over-year, but they were flat sequentially. So 156,000 as of January 1, also as of March 31. I guess any commentary on the growth in members, but flat sub Q-over-Q?

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Yeah. No, it's a great question, and I expected it to be asked. The real thing quarter-over-quarter is remember that our JRNY Members are driven primarily by people buying equipment. And we have to look at equipment units quarter-over-quarter. And in the third quarter, ending in December, that's our highest unit volume. So you're growing it pretty rapidly there. And then from that point, you have a pretty steep – especially this quarter with the Retail business being what it was, you have a pretty steep drop in units sold in the fourth quarter and that kind of flattens things out. So you're working against a drop there in new ads, right? So that's what you have to overcome. And so that – it's flat there.

I am really not concerned at all about that. It's very, very seasonal and I'm really just very excited about our new lower price SKU, which will bring JRNY to people who have not been able to afford it or wanted to make that investment previously. I like our new strength product because that allows JRNY to travel beyond the cardio portfolio into the strength portfolio. And we're excited about all those things looking forward. Structurally, the answer to your question is just it's a low unit quarter that drives that for the most part, and we're excited about what's going forward.

Q

Thanks. Good luck.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

A

Yeah. Thank you.

Operator: There are no further questions in the queue. I'd like to hand the call back to James Barr for closing remarks.

James Barr
Chief Executive Officer & Board Member, Nautilus, Inc.

Thank you to everyone on the call today for your continued support of Nautilus. We look forward to talking to you again on our first quarter fiscal 2024 earnings call in August. Have a great rest of your day. Onwards and upwards.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.