



Transcript of initial interview with Mr. Daniel Khesin



President and CEO of DS Healthcare Group Inc.



NASDAQ: DSKX

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**Daniel Khesin – President and Chief Executive Officer.** Daniel Khesin has served as our President and CEO since our inception. Prior to that time, Mr. Khesin was CEO of DK Design Group, Inc., a professional audio company, where he managed investments, engaged in the incubation of new technology and developed a distribution network from January 2004 to 2005. Previously, Mr. Khesin was Vice President of Operations of Free Razor, LLC, a continuity program for personal care products from 2003 to 2004. Mr. Khesin attended Hunter College. Mr. Khesin was chosen as a director for his experience within the personal care industry.

**Smallcaps.us: A warm welcome everyone to a new Smallcaps.us interview. Today we're speaking with Mr. Daniel Khesin, the President and CEO of DS Healthcare Group. The Company was introduced to us by a good friend of ours, a New York investment banker. And although we were a bit skeptical at first about a personal care products Company, because well the market is overcrowded, we were happily surprised, after doing our due diligence, about DS Healthcare's growth rate and its exciting product mix.**

**So this is a good opportunity for us to introduce the Company to you. DS Healthcare is listed on the NASDAQ Stock Exchange with ticker symbol DSKX. Daniel, it's great to have you with us, welcome.**

**Daniel Khesin:** Thank you, it's my pleasure to speak with you.

**Daniel, can you give us an introduction to DS Healthcare and maybe also give us an overview of the different product categories in which you're active?**

DS Healthcare has a very unique business model within personal care consumer goods sector. We specialize primarily in only innovating personal care products with a very different approach, and a completely different perspective.

So, if you look at the personal care landscape and you look at personal care products which people consume on a daily basis like shampoo, soap, toothpaste, etc, most of these products have remained pretty much the same and unchanged in the last 100 years. So if you look at a shampoo products today and you look at what it was like 50 or 100 years ago, you're

looking at pretty much the same formulation that's been repackaged and repositioned.

And, from the very beginning our company has focused on developing the kind of products that deliver a different approach from a technological standpoint, a more innovative product that delivers significantly greater benefit than what you get from conventional products.

And 'Yes' it's a very crowded environment within the retail sector, but the good part is that it is a very large industry where everyone in the world uses personal care products in some form and some fashion. So by creating a very innovative technology for personal care and healthcare products, we have been able to rapidly expand distribution because retailers are willing to give us shelf space as we're not really competing with anyone else.

So that's in a nutshell our business model which involves a really strong focus on only introducing and launching new products when they deliver certain features and benefits that are not available from competitors.

**As I mentioned in the introduction, although the personal care market is a multi-billion dollar market, it's also a very saturated one. Despite that, DS Healthcare is growing very rapidly. Can you tell us something about the technology being used in DS Healthcare's products and why that makes them different from your competitors' products?**

To give the best example of the technology that we use, I'm going to focus on the hair loss and the thinning hair category because that's where we derive the majority of our revenues today.

And, the approach that we have is very different. So for example, some of the products

that a lot of people already know, and a lot of your listeners have already heard about, like Propecia, which is a prescription treatment for hair loss, or products like Rogaine, which is a topical Minoxidil treatment, and there are a couple of other brands that have cosmetics products based on some kind of nutritional therapies or some type of botanical extract or something like that.

Our approach to treating this problem is that we've discovered early on that hair loss is a very complex problem that has multiple factors that occur simultaneously. So it is a multivariable situation, and a lot of the available treatments use a single modality for treatment. Propecia, for example, works by suppressing the conversion of testosterone into DHT. And of course, in this kind of treatment if you are suffering from sensitivity to DHT, then certainly Propecia is going to be an effective treatment. The problem is that for a lot of people who suffer from hair loss, they don't just have a sensitivity to DHT but they also have some other things that are going on at the same time, like chronic inflammation of the scalp, autoimmune factors, perifollicular fibrosis, certain vitamin deficiencies or a reaction to certain medications, and so on.

The same thing happens with products like Minoxidil, which is an ion channel opening drug which some people will respond to and some that won't. As a result, some people only have a partial response. So they may grow a little bit of hair, but not all the hair that they want because the medication that they're taking is addressing one of the problems that they have but not addressing the other problems. And other people may not respond at all because whatever that medication is doing it has nothing to do with what's causing the hair loss.

And so, our approach has been fundamentally very different because what we do is we develop multivariate, multidimensional therapies that target all these known underlying factors at the same time. So when you're getting one of our products, whether it is something that is one of our prescription based treatments or over-the-counter treatments or one of our cosmetic

treatments, all these treatments seek to address all the known underlying factors simultaneously, so you have a more broad spectrum treatment, and you have a much greater chance of a successful outcome.

Another thing that I want to add here is that we always deploy the latest and most cutting edge technologies in compounding molecules that are discovered in research. So, people have come to see DS Laboratories, which is one of the flagship brands of DS Healthcare, as a company that brings the latest cutting edge innovation to consumers before any other player.

And, I think that an important part of our growth strategy as well, is that we develop a certain amount of agility when it comes to product development and time to market. With some of the very large pharmaceutical or consumer goods oriented companies there's a huge amount of bureaucracy involved when they want to introduce a new product. There's like 30 or 40 people involved from many different departments, it typically takes them 2 or 3 years to turn around something that you typically can do in about 3 or 4 months.

When we on the other hand we see something that's exciting, we will literally be the first company to deploy it because we just developed this mechanism to do that.

**Well OK, that's really interesting. And can you tell us something about your different brands and where they're currently distributed?**

Well I think that we mainly should look at our flagship brand, DS Laboratories. Under this brand we sell high performance cosmetics and certain over-the-counter drugs, mainly related to hair loss and a few other dermatological disorders. It's now distributed in over a dozen countries.

In the United States, it's distributed via the salon channel and the professional beauty industry. That has proven to be an effective channel in the United States, primarily because 50% of the

population at some point in their lives are affected by hair loss or thinning hair. And every single one of these people will go to the hair salon. In other countries, like Mexico, our products are available through the medical community where the products are primarily prescribed or recommended by doctors and certain pharmacies.

Another brand that we have is the Polaris Research brand, which is primarily a drug type therapy in the hair loss space. At this moment it's only distributed overseas because getting FDA approval roughly takes four years and costs between \$7 to \$10 million per product, whereas in certain other foreign regions and countries the approval is a lot cheaper. We've worked with various distributors and partners that have the right kind of licenses and the right kind of approvals to import these products into their country. So Polaris is not distributed in North America whatsoever, it's only available in some international markets where we have the necessary approvals in place. Polaris has been also an important source of revenue for us.

**Your Company's strategy is clearly working, as first quarter sales in 2013 doubled compared with last year's. What were the major contributing factors?**

Well, I can tell you that for many years demand has outpaced supply at DS Healthcare. And we continue to have this problem because, you know every organization has different strengths and weaknesses. So if we can optimize our supply chain, the inventory turns and the way that we build products, we can organically deliver a lot more revenue.

So this year we're making enormous efforts into really optimizing our operations, integrating our operations in such a way that we can just really focus on the kind of growth that I think we can deliver. I don't think that we're really going to see any kind of challenges with achieving additional revenue.

**And while with the second quarter coming to an end, how does it look like and what do you expect for the rest of the year?**

Actually, the second quarter is ending in 3 or 4 days so right now our whole company's turned upside down in order to get as much orders out of the door as we can. Because we can only record revenues when something ships, we're running at least two shifts, even in the weekends.

I'm not going to speculate a lot on what the quarter is going to look like because there are a lot of variables to take into account. But I think that it'll be a very respectable quarter overall. Also, as far as the rest of the year is concerned I can't think of a single reason why we wouldn't have more revenues than we had in 2012. So we expect continuous growth with these products.

**Well that's excellent. Now, while we're on the subject of financials, let's take a look at the Company's valuation. Only a few weeks ago, Obagi Medical Products, a close competitor of yours, was acquired by Valeant Pharmaceuticals. Can you give us some more details about that deal and how it reflects on your valuation?**

Several different people are using the Obagi acquisition as a frame of reference. I don't necessarily think that that's the best frame of reference because Obagi has been making high potency cosmetic products distributed through physicians. There are probably some similarities but not a whole lot.

I think that maybe a more relevant comparison is the acquisition of Nioxin by Procter & Gamble about 5 years ago. Procter & Gamble paid something like 350 million for Nioxin, and I believe it was roughly 10 times Nioxin's revenues at the time. I think that's a relevant comparison, because Nioxin's products treat thinning hair problems and were also distributed entirely through the professional beauty industry and salons.

**And so, let's also take a look at the future. Where do you see growth opportunities for the Company?**

Well I think that there's 3 different ways that a company like ours can grow.

- One way is that you grow the size of your distribution. You approach additional distribution channels, either domestically or abroad, and of course by growing the size for your distribution, revenues increase.
- Another way to achieve growth is by introducing additional products into existing our distribution.
- And the third way is by nurturing and supporting the existing distribution channels. It makes a really big difference to actually work together with your distributors, to frequently meet with them, listen to their needs and address those needs, to provide them the kind of support they need and provide them with the required education. That's another way to grow revenues.

So, I definitely see opportunities in all these areas.

Additionally, we have unique, innovative products in the pipeline which we'll be introducing over the next 6 to 12 months that will completely change what people thought was possible in these kinds of products. They are just absolutely ground breaking.

I also like growing distribution in a lot of smaller countries. Like when I am on a call with my sales team, and we're working on a deal with, for example, Ecuador, they think Ecuador is small and therefore not so important, but I completely disagree. Because one advantage in a lot of these smaller countries is that they're being mostly ignored by the larger players like Unilever and Procter & Gamble, because they're too small for them. Those firms are pumping billions into markets like Europe and North America, but very little into these smaller third world countries because the potential resulting sales are still so small that it doesn't really make a dent in the scale of their business.

Whereas for us, it's very big. If we could become the market leader in a country like Ecuador, the revenue increase would be very

significant to us. So, I do see a lot of ways to grow in some of these smaller markets and become recognized as one of the leaders.

One last thing I want to say is that, one of the main challenges in our business is that we operate in a heavily regulated environment. These products all require approvals in every country. In the United States there's the FDA, Brazil has ANVISA, in Canada there's the Ministry of Health, and so on. Every country has its own standards and requirements for cosmetics and cosmetic labeling and drugs. So, I think the one important component to accelerate growth is for us to developing stronger in-house expertise on how to work with regulatory approvals. I can tell you there are probably half a dozen distributors in six countries that want to start with us today, but they can't because our products aren't approved yet in those countries. That would be another component that will allow us to accelerate growth.

**Well great. And before we close out, what would you say are the two or three most compelling reasons for a long term investor to consider DS Healthcare?**

I think the most attractive point of working with us and becoming a shareholder in DSKX is mainly that we have the ability to grow very rapidly. At the same time, we're uniquely positioned because we have a very stable and diversified revenue base from all over the world while we have the same growth opportunities that you only see in some development stage companies.

**Fantastic. Daniel, it's been a pleasure talking with you and we certainly appreciate your time. We'll be keeping track of the Company's progress and look forward to having you back for an update.**

Absolutely, anytime.



## **Interview Feedback**

We welcome your questions and feedback regarding this interview at: <http://www.smallcaps.us/how-ds-healthcare-group-is-able-to-double-its-sales-in-a-mature-market>.

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