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## NutriSystem Inc. Q3 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator Instructions) Your first question comes from Gregory Badishkanian – Citigroup.

#### Gregory Badishkanian – Citigroup

I have a few questions, I just wanted to first start off with the current trend, I think you mentioned September/October you saw some weakness and that coincides with generally what we see in the broader consumer market and just what we read in the papers about the financials and etc., all the bad news there. Can you maybe give us some color around, are people going to the checkout and not purchasing? Are you getting pushback when customers call up the call center in terms of the pricing and they want maybe more of a lower price solution? Can you give us a little bit of color around that?

#### Joseph M. Redling

I think it's a little bit of all of the above. We did see some depression and converging. We saw a lot of cost conscious consumers responding to offers and asking about pricing. We also saw softness in just general demand and traffic. Response rates through our marketing channels, we saw decline so whether it was television, print or online the overall response rates get people into the funnel, declined in September and continued into October.

#### Gregory Badishkanian – Citigroup

Did it deteriorate in October from the September trend or is it consistently the last six, eight weeks has it just been softer?

#### Joseph M. Redling

Yes. I think it's pretty consistent. I think yes you expect when you get into September and the diet cycle with back-to-school, I think we expected a bigger bump so we were disappointed there. You don't typically see the strength continue so the trends are pretty consistent as we look into October.

#### Gregory Badishkanian – Citigroup

Just moving over to 2009 and the initiatives, you have a number of initiatives and you mentioned frozen was probably the biggest opportunity for you and I can understand that. Just people getting bored of the diet and giving them better, different selection will keep them on longer. Of the remaining ones, maintenance, flex program, diabetics, international pricing, which ones do you think are going

to give you the, can you rank the next two, three and four of what you think is going to give you the biggest opportunity?

**Joseph M. Redling**

I think first on frozen, the variety and quality is critical because it not only keeps people on longer but our research into the segments of dieters, there's a very large segment that has a major barrier which is the foods that they love and to be able to create, using our formulas, diet products that really appeal to the food lovers we think opens up a pretty big segment on the front end. Opening up the number of choices, if you think about the frozen line is an incremental addition to our variety so typically we have 120 items for people to choose from. That's going to be over 170 items as we move into frozen so that type of variety opens up the window and customization to attract a lot of customers so that's very important.

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