

Nu Skin(NUS)

\$35.28 (As of 05/18/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: D

Summary

Nu Skin's shares have outpaced the industry in the past three months. The company, which has long been battling hurdles in Mainland China has been witnessing improved trends in the region as restrictions related to coronavirus are being lifted gradually. In fact, management expects this trend to continue in other markets. This along with global preview of its new beauty device is likely to enable the company to return to growth by the year end. Apart from these, Nu Skin continues to focus on empowering sales leaders. However, the company reported unimpressive results in first-quarter 2020, with the top and the bottom line declining year over year due to reduced sales leaders across all regions. Results in Mainland China have been soft for a while due to restrictions on sales meetings. Also, currency volatility is a concern.

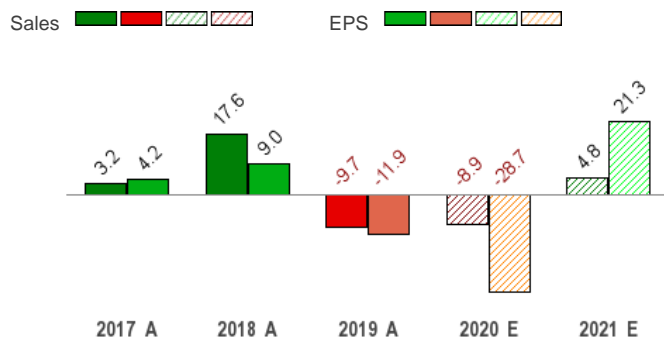
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.26 - \$12.31
20 Day Average Volume (sh)	1,006,006
Market Cap	\$1.8 B
YTD Price Change	-13.9%
Beta	1.10
Dividend / Div Yld	\$1.50 / 4.3%
Industry	Cosmetics
Zacks Industry Rank	Bottom 30% (177 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	50.0%
Last Sales Surprise	6.9%
EPS F1 Est- 4 week change	7.8%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	13.1
P/E F1	16.0
PEG F1	1.7
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	570 E	586 E	570 E	612 E	2,311 E
2020	518 A	540 E	546 E	601 E	2,205 E
2019	624 A	624 A	590 A	583 A	2,420 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.65 E	\$0.73 E	\$0.85 E	\$2.68 E
2020	\$0.36 A	\$0.49 E	\$0.66 E	\$0.71 E	\$2.21 E
2019	\$0.77 A	\$0.83 A	\$0.79 A	\$0.72 A	\$3.10 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/18/2020. The reports text is as of 05/19/2020.

Overview

Nu Skin, which was founded more than 30 years ago, develops and distributes a wide range of premium cosmetics, beauty, personal care and wellness products. While the company specializes in beauty and personal care, it also provides a wide range of nutritional products. Nu Skin's products are available in more than 50 markets worldwide.

From a product perspective, the company operates through two brand categories namely, Nu Skin and Pharmanex. The company offers premium quality personal care products under the Nu Skin brand banner, while nutritional supplements are marketed under Pharmanex. Both these brand categories have been yielding well.

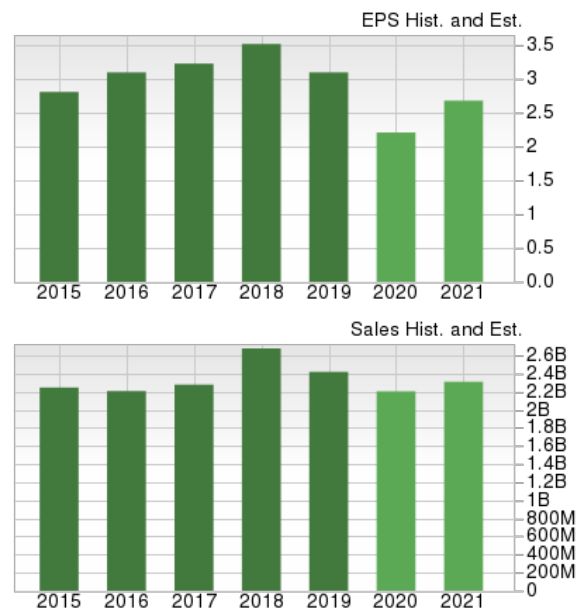
The company has evolved strongly in the skin care treatments arena, more particularly in anti-aging products. Some of the renowned brands of the company in skin care includes ageLOC and Epoch. The company also provides a wide range of hair care and other personal care items.

In addition to these, the company offers a diverse range of nutritional and weight management products such as ageLOC Youth nutritional supplement and LifePak nutritional supplements.

Nu Skin reaches out to customers through direct sales channels. In this respect, the company uses person-to-person marketing technique to sell as well as promote different brands.

A significant portion of the company's revenues are generated from overseas markets.

The company's revenues are reported under seven regional segments namely — Mainland China, EMEA regions, Americas/Pacific, South Korea, Southeast Asia, Japan and Hong Kong/Taiwan.



Reasons To Buy:

▲ **Stock Price Performance:** Shares of Nu Skin have gained 20.3% in the past three months, against the industry's decline of 27.8%. The company has been witnessing improved trends in the Mainland China region as restrictions related to coronavirus are being lifted gradually. In fact, management expects this trend to continue in other markets. Notably, Nu Skin has long been struggling with its Mainland China performance due to restrictions on sales meetings. Hurdles in the region were aggravated with the outbreak of COVID-19. Nonetheless, improved trends in the region, along with global preview of its new beauty device (late in 2020) is likely to enable Nu Skin to return to growth by the year end. Apart from these, Nu Skin continues to focus on empowering sales leaders through technological advancements.

Sustained growth in customer base is expected to keep supporting Nu Skin. The company is on track with product launches and programs to bolster sales leaders.

▲ **Efforts to Enhance Customer Base:** Nu Skin sells and distributes products through a network of sales leaders and customers. The company remains focused on empowering those through product launches and engaging technology platforms among other initiatives. In fact, it rolled out online leadership, training and education programs in Mainland China for its sales leaders. Moreover, the company has been conducting a number of promotional seminars online. Also, Nu Skin's focus on enhancing customer experience across various digital platforms bore well. In this regard, the company plans to launch VERA, a digital tool with an aim to provide personalized recommendation for its products to the customers.

▲ **Product Launches & Effective Programs Aid Growth:** With the help of advanced technology and well-strategized product programs, Nu Skin tries to capture greater market share and maintain growth momentum. In fact, the company's long-term strategies stand on three key pillars — Products, Programs and Platforms. Notably, the launch of the company's revolutionary ageLOC LumiSpa, along with the re-launch of Galvanic Spa device has been a success. Further, by the fourth quarter it plans to launch a new at-home beauty device, ageLOC which aims to provide customers with an on-the-go treatment for youthful skin. Additionally, management expects to launch a new bioadaptive skincare line under the Nutricentials brand. Importantly, management has also put in place new leadership incentives system for to enhance productivity of sales leaders. Apart from product launches, Nu Skin's well-knit product strategies and customer retention programs have been driving growth in several market locations. Earlier, management stated that it is working toward the expansion of its sales compensation program Velocity across different nations.

▲ **Shareholder-Friendly Moves:** At a juncture where many companies have suspended dividends due to the coronavirus outbreak, Nu Skin declared quarterly dividend of 37.5 cents per share, which is payable on Jun 10 to shareholders of record as of May 29. Moreover, during first-quarter 2020, it paid \$20.7 million in dividends and repurchased stocks worth \$60.9 million. This indicates the company's commitment toward shareholders.

Notably, Nu Skin has a dividend payout of 55.6%, dividend yield of 4.6% and free cash flow yield of 10.1%. With an annual free cash flow return on investment of 14.4%, ahead of the industry's 8.1%; the dividend payment is likely to be sustainable.

▲ **Debt Analysis:** Nu Skin's long-term debt of \$435 million as on Mar 31, 2020 (including operating lease liabilities) dropped 1.1% sequentially. Moreover, the company's total cash and cash equivalents of \$362 million as of Mar 31 is sufficient to fund its current debt of \$95 million.

Reasons To Sell:

- ▼ **Q1 Results Soft:** Nu Skin continued with its murky performance in first-quarter 2020, wherein the top and bottom lines declined year over year for the fourth straight time. Notably, earnings tumbled 53% to 36 cents during first-quarter. Moreover, revenues of \$518 million fell 17% year over year. We note that, reduced sales leader count due to declines across all regions hurt revenues.

Apart from these, gross profit declined 17.8% while gross margin contracted 80 basis points year over year in the quarter. Higher fixed cost overhead on reduced sales along with unfavorable foreign currency rates caused the downside.

Nu Skin's performance in the first quarter was adversely impacted by weakness in Mainland China and currency headwinds.

- ▼ **Adverse Currency Impacts:** A major share of Nu Skin's revenues is sourced from international markets, thereby exposing the company to significant currency risks. During the first quarter of 2020, the company's top line was hurt by 2% (or \$14.3 million) due to foreign-currency fluctuations. Nu Skin has been battling currency headwinds for quite some time. Moreover, management expects foreign currency fluctuations to affect the company's revenues for 2020 by 2-3% and that for the second quarter by 3-4%.
- ▼ **Stiff Competition:** The cosmetics and beauty segment is rife with competition, thanks to the existence of strong peers as well as abundant product alternatives. Cheaper alternatives may hinder customers' loyalty, thus impacting the sale of the company's products.
- ▼ **Changing Consumer Preferences:** The cosmetics industry is highly prone to changes along with consumers' changing lifestyle and preferences. Hence, Nu Skin's ability to generate profits depends largely on its ability to develop products that suit consumers' need and respond in a timely manner to fulfill the same. Also, shifts in market demand for a product for any reason may result in increased inventory levels, which may lead to selling goods at lower prices. This can hurt the company's overall performance.
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Last Earnings Report

Nu Skin's Q1 Earnings Beat Estimates, Decline Y/Y

Nu Skin Enterprises released first-quarter 2020 results, with earnings and sales declining year over year. Reduced sales leaders, especially in Mainland China, hurt quarterly results. Also, Nu Skin continued to battle foreign currency headwinds. Nevertheless, both the top and the bottom line surpassed the Zacks Consensus Estimate.

Q1 Highlights

Nu Skin delivered quarterly earnings of 36 cents a share, which beat the Zacks Consensus Estimate of 24 cents. However, the bottom line tumbled 53% from earnings of 77 cents reported in the year-ago quarter.

Revenues of \$518 million fell 17% year over year. Nevertheless, the metric surpassed the Zacks Consensus Estimate of \$474 million. First-quarter revenues included a negative impact of 2% (or \$14.3 million) from foreign currency fluctuations. Also, a reduced sales leader count due to declines across all regions hurt revenues.

Sales leaders were 49,551, down 22% year over year, with Mainland China accounting for majority of the decline. In fact, sales leaders deteriorated in all regions. Further, Nu Skin's customer base fell 5% year over year to 1,130,947, with declines in all regions except Southeast Asia (up 5% year over year) and Mainland China (flat year over year).

Gross profit came in at \$392.2 million, down 17.8% from the year-ago quarter's figure. Gross margin contracted 80 basis points (bps) year over year to 75.7%. Nu Skin's base business gross margin expanded 60 bps on a year-over-year basis to 78.1%.

Selling expenses amounted to \$206 million, which accounted for 39.8% of revenues compared with 40% in the year-ago quarter. Meanwhile, general and administrative expenses of \$149.6 million accounted for 28.9% of revenues, up from 25.4% in the year-ago quarter. Operating income came in at \$36.6 million, while operating margin fell year over year from 11% to 7.1%.

Regional Results

Revenues declined across all regions from the prior-year quarter's level. The highest drop was witnessed in Mainland China, where the metric fell 34%. Further, revenues fell 14% in the Americas/Pacific, 10% in South Korea, 4% in Southeast Asia, 12% in Hong Kong/Taiwan, 1% in Japan and 15% in EMEA.

Other Financial Details

Nu Skin ended the quarter with cash and cash equivalents of \$352.6 million, long-term debt of \$327.2 million and stockholders' equity of \$800.5 million. During the quarter, the company paid out dividends of \$20.7 million.

In a separate press release, Nu Skin announced a dividend of 37.5 cents per share payable on Jun 10, to shareholders of record as of May 29.

Guidance

Nu Skin continues to focus on improving sales leaders through technological advancements. Moreover, the company has been witnessing improved trends in Mainland China region as restrictions related to contain the spread of coronavirus are being lifted gradually. Management expects this trend to continue in other markets globally. This along with global preview of its new beauty device, late in 2020, is likely to enable the company to return to growth by the year end.

Management expects 2020 revenues in the range of \$2.17-\$2.26 billion, including currency headwinds of 2-3%. In 2019, Nu Skin's revenues amounted to \$2.42 billion. Prior to this, the company had anticipated 2020 revenues of \$2.17-\$2.30 billion, including currency headwinds of 1-2%.

Further, 2020 earnings are projected in the range of \$2.05-\$2.35 per share, which indicates a decline from \$3.10 delivered in the prior-year quarter. Earlier, Nu Skin had envisioned earnings in the range of \$2.00-\$2.40 per share.

For the second quarter, the company projects revenues in the band of \$520-\$550 million that includes adverse currency impacts of 3-4%. Earnings are anticipated between 42 cents and 52 cents.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	6.90%
EPS Surprise	50.00%
Quarterly EPS	0.36
Annual EPS (TTM)	2.70

Recent News

Nu Skin Declares Dividend – May 6, 2020

Nu Skin has declared quarterly cash dividend of 37.5 cents per share. This will be payable on Jun 10, 2020 to shareholders of record as on May 29.

Valuation

Nu Skin shares are down 12.6% in the year-to-date period and 28.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 41.9% and 16.7%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 32.5%, while the sector declined 11%.

The S&P 500 index is down 10.3% in the year-to-date period and up 2.8% in the past year.

The stock is currently trading at 14.77 forward 12-month earnings, which compares to 32.35X for the Zacks sub-industry, 18.52X for the Zacks sector and 20.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.61X and as low as 5.57X, with a 5-year median of 15.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 15.94X forward 12-month earnings.

The table below shows summary valuation data for NUS

Valuation Multiples - NUS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.77	32.35	18.52	20.83
	5-Year High	22.61	33.93	22.37	20.87
	5-Year Low	5.57	19.65	16.65	15.23
	5-Year Median	15.86	24.43	19.66	17.49
P/S F12M	Current	0.82	3.72	8.65	3.24
	5-Year High	1.85	4.02	11.16	3.44
	5-Year Low	0.31	1.53	8.1	2.53
	5-Year Median	1.19	2.79	9.89	3.01
EV/EBITDA F12M	Current	4.72	27.52	34.18	12.3
	5-Year High	11	28.06	37.75	12.65
	5-Year Low	4.46	10.93	29.8	9.05
	5-Year Median	7.71	20.91	34.1	10.81

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Coty Inc. (COTY)	Neutral	3
e.l.f. Beauty Inc. (ELF)	Neutral	3
Helen of Troy Limited (HELE)	Neutral	3
MANDOM CORP (MDOMF)	Neutral	4
POLA ORBIS (PORBF)	Neutral	3
Revlon, Inc. (REV)	Neutral	3
Symrise AG Un-sponsored ADR (SYIEY)	Neutral	3
Inter Parfums, Inc. (IPAR)	Underperform	5

Industry Comparison Industry: Cosmetics				Industry Peers		
	NUS	X Industry	S&P 500	PORBF	REV	SYIEY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	A	-	-	A	C	D
Market Cap	1.83 B	1.25 B	20.09 B	4.14 B	578.61 M	14.25 B
# of Analysts	4	2	14	2	1	1
Dividend Yield	4.25%	0.00%	2.1%	0.00%	0.00%	0.62%
Value Score	B	-	-	C	D	F
Cash/Price	0.21	0.11	0.07	0.16	0.11	NA
EV/EBITDA	5.74	13.35	12.13	NA	13.35	NA
PEG Ratio	1.73	4.32	2.72	14.11	NA	NA
Price/Book (P/B)	2.34	2.36	2.75	2.38	NA	NA
Price/Cash Flow (P/CF)	7.84	16.91	10.86	11.86	10.17	NA
P/E (F1)	15.96	33.01	20.10	22.58	NA	33.72
Price/Sales (P/S)	0.79	1.96	2.05	1.98	0.25	NA
Earnings Yield	6.26%	2.97%	4.77%	4.43%	-22.65%	2.97%
Debt/Equity	0.54	0.33	0.76	NA	-1.68	NA
Cash Flow (\$/share)	4.50	1.62	7.01	1.58	1.04	NA
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	4.11%	4.11%	10.87%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-28.71%	-12.57%	-10.31%	-2.92%	2.45%	2.63%
Curr. Cash Flow Growth	-11.19%	0.64%	5.51%	NA	306.43%	NA
Hist. Cash Flow Growth (3-5 yrs)	-3.17%	8.48%	8.55%	NA	-20.60%	NA
Current Ratio	1.74	1.69	1.28	5.09	0.70	NA
Debt/Capital	35.23%	35.23%	44.46%	NA	NA	NA
Net Margin	6.49%	1.07%	10.59%	0.88%	-12.78%	NA
Return on Equity	17.91%	10.89%	16.29%	13.21%	NA	NA
Sales/Assets	1.31	0.95	0.55	0.99	0.78	NA
Proj. Sales Growth (F1/F0)	-8.90%	-3.95%	-2.49%	-3.95%	-9.84%	5.02%
Momentum Score	D	-	-	A	A	A
Daily Price Chg	3.98%	0.02%	5.21%	-2.90%	5.29%	2.77%
1 Week Price Chg	-5.33%	-0.37%	-4.56%	0.00%	-21.41%	-0.37%
4 Week Price Chg	47.55%	0.01%	4.12%	4.11%	2.13%	2.33%
12 Week Price Chg	24.40%	-6.70%	-16.39%	-6.17%	-42.73%	2.61%
52 Week Price Chg	-31.54%	-0.20%	-5.84%	-37.78%	-54.01%	10.64%
20 Day Average Volume	1,006,006	43,953	2,651,378	553	81,979	53,625
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.84%	0.00%	-4.48%	0.00%	-6.22%	0.00%
(F1) EPS Est 12 week change	-2.56%	-18.60%	-16.39%	-5.68%	-11.16%	-4.88%
(Q1) EPS Est Mthly Chg	14.80%	-50.74%	-9.90%	0.00%	0.95%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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