

Nu Skin(NUS)

\$37.74 (As of 01/23/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Nu Skin's shares have underperformed the industry in the past year. Headwinds in Mainland China, a soft view for 2019 and currency fluctuations are prime deterrents. The recently completed 100-day government campaign in Mainland China to inspect offerings of the nutrition and direct sales industry led to adversities like limited sales meetings. This took a toll on the company's third-quarter 2019 results, with revenues and earnings declining year over year. The company also issued a soft view for the fourth quarter and 2019, wherein adverse impacts from currency movements are likely to persist. Nevertheless, the company is on track with product launches and programs to strengthen sales leaders in Mainland China. Also, the company is committed toward boosting customer base, which grew 4% in the third quarter.

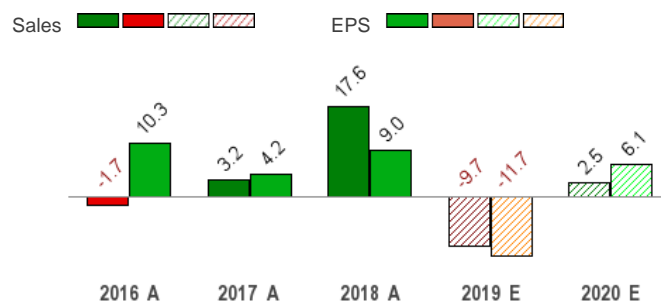
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$69.79 - \$35.03
20 Day Average Volume (sh)	400,132
Market Cap	\$2.1 B
YTD Price Change	-7.9%
Beta	0.77
Dividend / Div Yld	\$1.48 / 3.9%
Industry	Cosmetics
Zacks Industry Rank	Bottom 20% (204 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.0%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/12/2020
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	611 E	641 E	617 E	612 E	2,481 E
2019	624 A	624 A	590 A	583 E	2,420 E
2018	616 A	704 A	675 A	683 A	2,679 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.77 E	\$0.88 E	\$0.85 E	\$0.81 E	\$3.30 E
2019	\$0.77 A	\$0.83 A	\$0.79 A	\$0.72 E	\$3.11 E
2018	\$0.64 A	\$1.08 A	\$0.94 A	\$1.05 A	\$3.52 A

*Quarterly figures may not add up to annual.

P/E TTM	11.0
P/E F1	11.4
PEG F1	1.2
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

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.

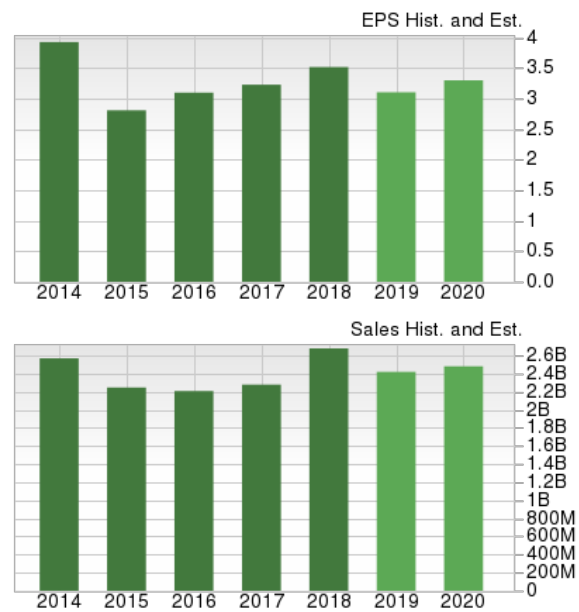
The company has evolved strongly in the skin care treatments arena, more particularly in anti-aging products. Some of the renowned brands of the company in skin care includes ageLOC and Epoch. The company also provides a wide range of hair care and other personal care items.

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. During 2018, markets outside the United States accounted for almost 88% of the company's revenues, with 33% of revenues coming from Mainland China.

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:

▲ **Efforts to Enhance Customer Base:** Nu Skin sells and distributes its products through a network of sales leaders and customers. Notably, the company has been benefitting from growth in consumer count. During the third quarter of 2019, Nu Skin's customer base expanded 4% to 1,206,697. The metric improved in Mainland China and EMEA regions. This indicates that the company's strategic initiatives to attract consumers are yielding results. In the first and second quarters of 2019, the customer base expanded 10% and 1%, respectively.

Management is committed toward boosting customer strength by developing platforms for effective engagement and empowering programs. In fact, the company also rolled out a new customer referral program in Mainland China, which is gaining pace. Also, the company relies much on social media as well as well-knit product and marketing programs to widen its customer reach.

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.

▲ **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 has been a success. Further, Nu Skin anticipates introducing various products to the market in 2020. These include a reformulated Tru Face Essence Ultra as well as new Galvanic gels. Also, the company unveiled its plans to launch a daily-use beauty device, which is expected to be a robust business driver in the second half of 2020. Importantly, the company is undertaking several initiatives to accelerate growth in Mainland China. In this context, it is rolling out an improved version of Galvanic Spa, along with the new Nutriol scalp and hair system. Management plans to put in place new incentives system for the region 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. It has also been working toward expanding its sales compensation program Velocity across different nations. Management expects that Velocity will be a significant driver in expanding the company's business in the future.

▲ **Shareholder-Friendly Moves:** Nu Skin is committed toward returning value to shareholders through dividends and share buybacks. During the third quarter of 2019, the company paid out dividends of nearly \$20.6 million.

▲ **Strong International Presence:** Nu Skin's operations are spread across 50 markets globally. Markedly, a significant chunk of the company's revenues comes from regions outside the United States. The strong global presence is a significant advantage as declines in certain regions can be cushioned by growth in others. During the third quarter, we note that the company witnessed growth in Japan, wherein results benefited from advancements in beauty device systems, development events and improved sales leaders' productivity. Also, Taiwan performed well. The company is on track with implementing various elements of its growth strategy at a global scale to achieve balanced growth.

Reasons To Sell:

- ▼ **Headwinds in Mainland China Hurts Q3 Results:** Nu Skin's third-quarter 2019 performance was unimpressive, as both top and bottom lines declined year on year. Also, sales missed the Zacks Consensus Estimate. While earnings were hurt by soft revenues and lower margins, revenues were dampened by a tough regulatory environment in Mainland China, primarily due to meeting restrictions. The recently completed 100-day government campaign in the region to inspect offerings of nutrition and direct sales caused adversities such as limited sales meetings, media scrutiny and unfavorable consumer sentiments. As a result, revenues from the Mainland China region plunged as much as 23%. Revenues from other regions such as Americas/Pacific, South Korea, Southeast Asia, Hong Kong/Taiwan and EMEA also depicted declines.

Nu Skin's performance is exposed to the risks of declines in Mainland China and currency rate fluctuations.

Further, sales leaders fell 16% year over year in the third quarter, with Mainland China accounting for the majority of the fall. In fact, sales leaders deteriorated in all regions. Gross profit declined nearly 13.1% from the year-ago quarter, while gross margin contracted 50 basis points (bps). Operating income declined 13.4%, primarily due to lower revenues. Dismal performance in the quarter along with soft view and pressures from foreign currency rates is hurting investors' sentiments. The stock has declined 38.5% in the past year, compared with the industry's growth of 55.5%.

- ▼ **Soft View:** Although the company is seeing sequential stability in sales leaders and overall business in Mainland China, management believes that a complete revival in sales leader numbers may take a few quarters. Management expects 2019 revenues of \$2.41-\$2.43 billion. This suggests a decline from \$2.68 billion reported in the year-ago period. Further, earnings are projected in the range of \$3.07-\$3.14 per share, indicating a decline from \$3.52 in the prior year.

For the fourth quarter, the company projects revenues of \$570-\$590 million compared with \$683.3 million reported in the year-ago period. Earnings are anticipated between 68 cents and 75 cents per share, including costs related to the LIVE event hosted in October. In the year-ago period, Nu Skin's adjusted earnings came in at \$1.05 per share.

- ▼ **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 third quarter of 2019, the company's top line was hurt by nearly 2% (or approximately \$12 million) due to foreign-currency fluctuations. Currency headwinds also weighed on the quarter's gross margin. Nu Skin has been battling currency headwinds for quite some time now. Moreover, management expects foreign currency fluctuations to affect the company's revenues in 2019 by almost 4% and nearly 2% in the fourth quarter.

- ▼ **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.
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Last Earnings Report

Nu Skin's Q3 Earnings Beat Estimates, Revenues Miss

Nu Skin released third-quarter 2019 results. Quarterly earnings of 79 cents a share beat the Zacks Consensus Estimate of 76 cents. However, the bottom line tumbled almost 16% from the year-ago quarter's reported figure.

Revenues of \$589.9 million missed the Zacks Consensus Estimate of \$631 million and declined 12.6% from the prior-year quarter's level. The metric includes a negative impact of 2% (or approximately \$12 million) from foreign currency fluctuations. Revenues in the quarter were hurt by a tough regulatory environment in Mainland China, primarily due to meeting restrictions.

Sales leaders were 61,090, down 16% year over year, with Mainland China accounting for the majority of the decline. In fact, sales leaders deteriorated in all regions. Nevertheless, Nu Skin's customer base expanded 4% to 1,206,697, primarily on growth in Mainland China along with improvement in the EMEA region.

Gross profit came in at \$449.8 million, down 13.1% from the year-ago quarter's figure. Gross margin contracted 50 basis points (bps) to 76.2%, owing to a higher percentage of manufacturing revenues. Nu Skin's base business gross margin contracted 10 bps to 78.6%.

Selling expenses amounted to \$231.9 million, which accounted for 39.3% of revenues compared with 40.2% in the year-ago quarter. Meanwhile, general and administrative expenses of \$147.9 million accounted for 25.1% of revenues, up from 24.5% in the year-ago quarter.

Operating income declined 13.4% to \$69.9 million, primarily due to lower revenues. Operating margin shrank 10 bps to 11.8%.

Regional Results

Revenues declined across most regions, except Japan wherein sales improved 6% from the prior-year quarter's level. The highest drop was witnessed in Mainland China, where the metric declined 23%. Further, revenues fell 11% in the Americas/Pacific, 12% in South Korea, 9% in Southeast Asia, 10% in Hong Kong/Taiwan and 17% in EMEA.

Other Financial Details

Nu Skin ended the quarter with cash and cash equivalents of \$320 million, long-term debt of \$341.7 million and stockholders' equity of \$845.8 million.

In a separate press release, Nu Skin announced a quarterly dividend of 37 cents per share, payable on Dec 11, 2019, to shareholders of record as of Nov 29.

Guidance

Nu Skin focuses on product launches and anticipates introducing various products to the market in 2020. These include a reformulated Tru Face Essence Ultra as well as new Galvanic gels. Also, the company unveiled its plans to launch a daily-use beauty device, which is expected to be a robust business driver in the second half of 2020.

Nu Skin is making efforts to improve its business in Mainland China. In fact, the company is seeing sequential stability in sales leaders and overall business in the region. However, management believes that a complete revival in sales leader numbers may take a few quarters.

Management expects 2019 revenues of \$2.41-\$2.43 billion, including currency headwinds of nearly 4%. Further, earnings are projected in the range of \$3.07-\$3.14 per share, indicating a decline from \$3.52 delivered in the prior year.

For the fourth quarter, the company projects revenues of \$570-\$590 million, including adverse currency impacts of nearly 2%. Earnings are anticipated between 68 cents and 75 cents per share, including costs related to the LIVE event hosted in October. In the year-ago period, Nu Skin's adjusted earnings came in at \$1.05 per share.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	-2.57%
EPS Surprise	3.95%
Quarterly EPS	0.79
Annual EPS (TTM)	3.44

Recent News

Nu Skin Declares Dividend – Nov 5, 2019

Nu Skin's board announced quarterly dividend of 37 cents per share, which is paid on Dec 11 to shareholders of record as of Nov 29.

Valuation

Nu Skin shares are down 38.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 55.5% and 21.7% over the past year, respectively.

The S&P 500 index is up 26.6% in the past year.

The stock is currently trading at 11.46X forward 12-month earnings, which compares to 29.58X for the Zacks sub-industry, 19.92X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.61X and as low as 8.9X, with a 5-year median of 15.85X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 12.15X 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	11.46	29.58	19.92	19.13
	5-Year High	22.61	29.58	22.38	19.34
	5-Year Low	8.9	19.65	16.66	15.17
	5-Year Median	15.85	23.88	19.76	17.44
P/S F12M	Current	0.85	4.06	10.26	3.56
	5-Year High	1.85	4.06	11.13	3.56
	5-Year Low	0.71	1.53	8.09	2.54
	5-Year Median	1.24	2.69	9.88	3
EV/EBITDA F12M	Current	6.16	22.53	34.39	12.66
	5-Year High	11	22.67	37.23	12.66
	5-Year Low	4.46	8.68	29.38	9.08
	5-Year Median	7.69	16.93	33.53	10.78

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (204 out of 255)



Top Peers

Helen of Troy Limited (HELE)	Outperform
Coty Inc. (COTY)	Neutral
e.l.f. Beauty Inc. (ELF)	Neutral
Revlon, Inc. (REV)	Neutral
Symrise AG Unsponsored ADR (SYIEY)	Neutral
Inter Parfums, Inc. (IPAR)	Underperform
MANDOM CORP (MDOMF)	Underperform
POLA ORBIS (PORBF)	Underperform

Industry Comparison Industry: Cosmetics				Industry Peers		
	NUS Neutral	X Industry	S&P 500	PORBF Underperform	REV Neutral	SYIEY Neutral
VGM Score	A	-	-	D	F	D
Market Cap	2.10 B	1.67 B	24.46 B	5.27 B	1.24 B	13.09 B
# of Analysts	5	3	13	2	1	1
Dividend Yield	3.92%	0.00%	1.75%	0.00%	0.00%	0.65%
Value Score	A	-	-	F	F	D
Cash/Price	0.14	0.05	0.04	0.13	0.05	NA
EV/EBITDA	7.24	20.31	14.11	NA	43.70	NA
PEG Ratio	1.19	2.81	2.04	15.12	NA	NA
Price/Book (P/B)	2.48	3.13	3.40	3.02	NA	NA
Price/Cash Flow (P/CF)	7.42	27.63	13.66	37.31	86.71	NA
P/E (F1)	11.03	30.73	19.10	24.19	NA	30.73
Price/Sales (P/S)	0.83	2.20	2.67	NA	0.50	NA
Earnings Yield	8.74%	3.26%	5.23%	4.15%	-9.57%	3.25%
Debt/Equity	0.50	0.24	0.72	NA	-2.37	NA
Cash Flow (\$/share)	5.09	1.62	6.94	0.64	0.26	NA
Growth Score	C	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	3.24%	5.49%	10.60%	NA	-3.96%	NA
Proj. EPS Growth (F1/F0)	6.31%	9.05%	7.59%	15.20%	26.12%	7.89%
Curr. Cash Flow Growth	13.27%	-0.29%	13.90%	NA	-80.42%	NA
Hist. Cash Flow Growth (3-5 yrs)	-6.76%	8.22%	9.00%	NA	-36.35%	NA
Current Ratio	2.01	1.77	1.22	5.09	1.13	NA
Debt/Capital	33.32%	33.32%	42.99%	NA	NA	NA
Net Margin	4.59%	4.59%	11.35%	NA	-10.31%	NA
Return on Equity	23.52%	10.22%	17.10%	NA	NA	NA
Sales/Assets	1.44	0.95	0.55	NA	0.81	NA
Proj. Sales Growth (F1/F0)	2.53%	3.71%	4.03%	2.85%	0.74%	9.97%
Momentum Score	A	-	-	D	C	C
Daily Price Chg	-0.81%	0.00%	0.26%	0.00%	-2.85%	0.08%
1 Week Price Chg	3.75%	0.00%	2.29%	0.00%	10.34%	0.76%
4 Week Price Chg	-6.72%	0.70%	2.24%	-4.91%	3.03%	-3.15%
12 Week Price Chg	-15.34%	0.00%	7.79%	-0.33%	-14.53%	4.78%
52 Week Price Chg	-40.40%	0.00%	21.61%	-13.09%	-8.81%	22.59%
20 Day Average Volume	400,132	27,470	1,536,379	61	53,737	28,896
(F1) EPS Est 1 week change	0.49%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.24%	0.00%	0.00%	-6.64%	0.00%	-1.20%
(F1) EPS Est 12 week change	-3.96%	-2.03%	-0.23%	-6.64%	-1.90%	18.84%
(Q1) EPS Est Mthly Chg	0.87%	0.00%	0.00%	NA	0.00%	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	A
Growth Score	C
Momentum Score	A
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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