

Nu Skin(NUS)

\$48.20 (As of 08/26/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 07/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Shares of Nu Skin have outperformed the industry in the past three months. The company is optimistic about the strength in its sales leaders, which is driving customer base expansion. Also, management expects its solid product pipe line that includes ageLOC Boost device and Nutricentials Bioadaptive Skin Care to boost growth in the second half of 2020. Incidentally, the company raised its 2020 outlook. Moreover, Nu Skin's efforts to boost customer base are yielding. Notably, the company's customer base increased 29% in second-quarter 2020. However, Nu Skin reported musky results for second-quarter, with sales and earnings falling year over year. Also, gross margin contracted 50 basis points in the quarter due to incremental freight costs and coronavirus related expenses. Apart from this, volatile currency movements are a concern.

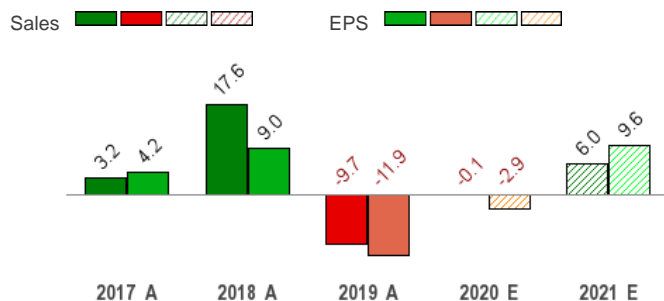
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.77 - \$12.31
20 Day Average Volume (sh)	476,658
Market Cap	\$2.5 B
YTD Price Change	17.6%
Beta	1.25
Dividend / Div Yld	\$1.50 / 3.1%
Industry	Cosmetics
Zacks Industry Rank	Top 48% (120 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.9%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	20.8%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	18.0
P/E F1	16.0
PEG F1	1.7
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	608 E	649 E	654 E	680 E	2,562 E
2020	518 A	612 A	621 E	666 E	2,418 E
2019	624 A	624 A	590 A	583 A	2,420 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.81 E	\$0.91 E	\$0.94 E	\$3.30 E
2020	\$0.36 A	\$0.81 A	\$0.87 E	\$0.98 E	\$3.01 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 08/26/2020. The reports text is as of 08/27/2020.

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.

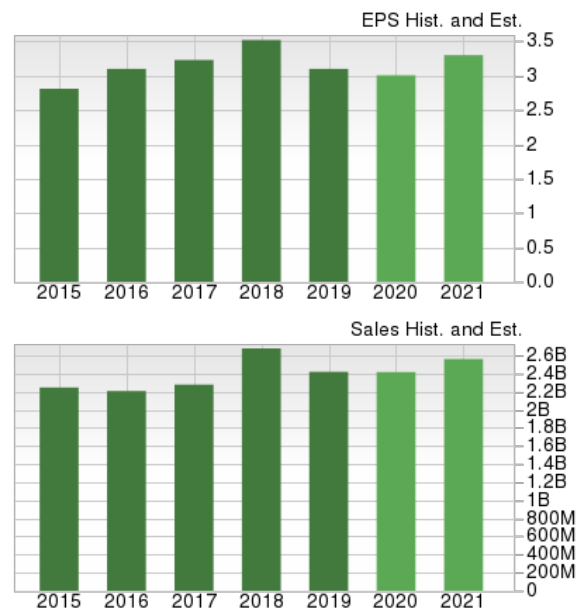
The company has evolved strongly in the skin care treatments arena, more particularly in anti-aging products. Some of the renowned brands of the company in skin care includes ageLOC and Epoch. The company also provides a wide range of hair care and other personal care items.

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:

- ▲ **Impressive Outlook:** Nu Skin is optimistic about strength in its sales leaders, which are driving customer base expansion. Also, the company expects its solid product pipe line that includes ageLOC Boost device and Nutricentials Bioadaptive Skin Care to boost growth in the second half of 2020. Given an above expected year-to-date performance and the aforementioned upsides, management raised its 2020 outlook.

Management now expects 2020 revenues in the range of \$2.37-\$2.45 billion. Prior to this, the company had anticipated 2020 revenues in the band of \$2.17-\$2.26 billion. Further, 2020 earnings are projected in the range of \$2.85-\$3.10 per share. Earlier, Nu Skin had envisioned earnings in the range of \$2.05-\$2.35 per share. We note that shares of Nu Skin have gained 30.9% in the past three months compared with the industry's growth of 11.9%.

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 bode well. In this regard, the company plans to launch VERA, a digital tool during the second half of 2020. The tool is aimed at providing personalized recommendation for its products to the customers. During the second quarter of 2020, Nu Skin launched a new customer reward program called enJoy in Southeast Asia and Mainland China. Management expects to attain long-term loyalty via redeemable rewards points alongside improving customer relationships with the help of this program. In fact, the company expects to launch enJoy in the United States during the second half of 2020. Notably, Nu Skin's customer base increased 29% year over year to 1,499,900 in the second quarter of 2020.

- ▲ **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 ageLOCLumiSpa, along with the re-launch of Galvanic Spa device has been a success. Further, during the fourth quarter it plans preview 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 by the fourth quarter. 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.

- ▲ **Debt Analysis:** Nu Skin's long-term debt (including operating lease liabilities) of \$423 million as of Jun 30, 2020 reflected a decline of 2.8% on a sequential basis. Incidentally, the company's debt-to-capitalization ratio of 0.4 stood lower than the industry's ratio of 0.6 at the end of second-quarter 2020. Moreover, the company's total cash and cash equivalents stand at \$386 million as of Jun 30 while its current debt was \$95 million.

- ▲ **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 on Aug 5. Moreover, during second-quarter 2020, it paid \$19.4 million in dividend payouts and repurchased stocks worth \$46.5 million. This indicates the company's commitment toward shareholders.

We note that the company's current annualized dividend rate of \$1.50 a share reflects a 1.4% increase from the year-ago period's figure. Nu Skin has a dividend payout of 56%, dividend yield of 3.1% and free cash flow yield of 8.8%. With an annual free cash flow return on investment of 16.2%, ahead of the industry's 4.3%; the dividend payment is likely to be sustainable.

Risks

- **Q2 Results Soft:** Nu Skin continued with its murky performance in second-quarter 2020, wherein the top and bottom lines declined year over year for the fifth straight time. Notably, earnings declined 2.5% to 81 cents during second-quarter. Moreover, revenues of \$612.4 million fell 1.8% year over year. We believe that lower sales leader count due to declines across several regions hurt revenues.

Apart from these, gross profit declined 2.4% while gross margin contracted 50 basis points year over year in the quarter. Incremental freight costs stemming from higher demand along with coronavirus related costs caused the downside.

- **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 second quarter of 2020, the company's top line was hurt by 3% (or \$19.8 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 third quarter by 1-2%.
 - **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 Q2 Earnings Beat Estimates, Sales Decline Y/Y

Nu Skin released second-quarter 2020 results, with the top and the bottom line declining year over year. Nevertheless, both the metrics surpassed the Zacks Consensus Estimate.

Management is impressed with its performance so far this year. Incidentally, the company raised its guidance for 2020.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	1.05%
EPS Surprise	20.90%
Quarterly EPS	0.81
Annual EPS (TTM)	2.68

Q2 Highlights

Nu Skin delivered quarterly earnings of 81 cents a share, which beat the Zacks Consensus Estimate of 67 cents. However, the bottom line decreased 2.5% from earnings of 83 cents reported in the year-ago quarter.

Revenues of \$612.4 million fell 1.8% year over year. Nevertheless, the metric surpassed the Zacks Consensus Estimate of \$606 million. Second-quarter revenues included a negative impact of 3% (or \$19.8 million) from foreign currency fluctuations. On a constant-currency basis, sales inched up 1% driven by increase in customer base.

Sales leaders were 56,036, down 9% year over year, with Mainland China and Hong Kong/Taiwan accounting for majority of the decline. Nonetheless, Nu Skin's customer base increased 29% year over year to 1,499,900 with rise in all regions except South Korea, Japan and Hong Kong/Taiwan.

Gross profit came in at \$458.3 million, down 2.4% from the year-ago quarter's figure. Gross margin contracted 50 basis points (bps) year over year to 74.8%. Nu Skin's base business gross margin declined 20 bps on a year-over-year basis to 77.6%. The downside was caused by incremental freight costs stemming from higher demand and coronavirus related costs.

Selling expenses amounted to \$248.6 million, which accounted for 40.6% of revenues compared with 39.4% in the year-ago quarter. Meanwhile, general and administrative expenses of \$151.6 million accounted for 24.7% of revenues, up from 24% in the year-ago quarter.

Operating income came in at \$58.1 million, while operating margin fell year over year from 11.9% to 9.5%.

Regional Results

Revenues across Mainland China declined 21% the prior-year quarter's level. Further, revenues fell 9% in South Korea, 11% in Southeast Asia and 15% from Hong Kong/Taiwan region. Nevertheless, sales across Americas/Pacific, Japan and EMEA region increased 38%, 5% and 17%, respectively.

Other Financial Details

Nu Skin ended the quarter with cash and cash equivalents of \$375.5 million, long-term debt of \$319.9 million and stockholders' equity of \$792 million. During the quarter, the company paid out dividends of \$19.4 million.

In a separate press release, Nu Skin announced a dividend of 37.5 cents per share payable on Sep 9 to shareholders of record as of Aug 29.

Guidance

Nu Skin continues to remain optimistic about its sales leaders, which is driving customer base expansion. Also, the company expects its solid product pipeline that includes ageLOC Boost device and Nutricentials Bioadaptive Skin Care to boost growth in the second half of 2020. Given an above expected year-to-date performance and the aforementioned upsides, management is raising full year 2020 outlook.

Management now expects 2020 revenues in the range of \$2.37-\$2.45 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-\$2.26 billion.

Further, 2020 earnings are projected in the range of \$2.85-\$3.10 per share. The company delivered earnings of \$3.10 in 2019. Earlier, Nu Skin had envisioned earnings in the range of \$2.05-\$2.35 per share.

For the third quarter, the company projects revenues in the band of \$605-\$635 million that includes adverse currency impacts of 1-2%. Earnings are anticipated between 78 cents and 88 cents.

Recent News

Nu Skin Declares Dividend – Aug 5, 2020

Nu Skin has declared quarterly cash dividend of 37.5 cents per share. This will be payable on Sep 9, 2020 to shareholders of record as on Aug 28.

Nu Skin Raises Sales Guidance for Q2 - Jul 1, 2020

Nu Skin Enterprises raised its sales guidance for the second quarter of fiscal 2020. The company now expects revenues in the range of \$603-\$608 million in the quarter. Management had earlier projected sales in the band of \$520-\$550 million in the second quarter.

The uptick can be attributed to higher consumer growth globally, primarily driven by strength in Europe and the Americas business. Moreover, the company's investments in enhancing its technological and digital abilities contributed to second-quarter growth. Notably, Nu Skin's e-commerce business represented more than 80% of volumes in the quarter.

Valuation

Nu Skin shares are up 20.6% in the year-to-date period and 25.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 25.4% and the Zacks Consumer Staples sector is down 4.3% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 21.9% and 1.2%, respectively.

The S&P 500 index is up 9.4% in the year-to-date period and 23.2% in the past year.

The stock is currently trading at 15.07X forward 12-month earnings, which compares to 36.33X for the Zacks sub-industry, 40.79X for the Zacks sector and 20.31X 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 16.08X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$58 price target reflects 18.13X 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	15.07	36.33	40.79	20.31
	5-Year High	22.61	38.37	40.79	22.37
	5-Year Low	5.57	19.65	19.65	16.63
	5-Year Median	16.08	24.84	24.86	19.58
P/S F12M	Current	0.99	4.77	9.62	3.81
	5-Year High	1.85	4.77	11.15	3.81
	5-Year Low	0.31	1.53	8.1	2.53
	5-Year Median	1.19	2.86	9.89	3.05
EV/EBITDA F12M	Current	8.14	26.8	34.88	13.55
	5-Year High	12.17	33.2	37.28	14.19
	5-Year Low	3.27	8.68	25.88	9.15
	5-Year Median	8.01	18.03	33.7	11.04

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 48% (120 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Helen of Troy Limited (HELE)	Outperform	2
Symrise AG Un-sponsored ADR (SYIEY)	Outperform	2
Coty Inc. (COTY)	Neutral	3
e.l.f. Beauty Inc. (ELF)	Neutral	3
Inter Parfums, Inc. (IPAR)	Neutral	3
MANDOM CORP (MDOMF)	Neutral	3
POLA ORBIS (PORBF)	Neutral	4
Revlon, Inc. (REV)	Underperform	5

Industry Comparison Industry: Cosmetics				Industry Peers		
	NUS	X Industry	S&P 500	PORBF	REV	SYIEY
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Underperform	Outperform
Zacks Rank (Short Term)	1	-	-	4	5	2
VGM Score	B	-	-	B	D	C
Market Cap	2.48 B	1.43 B	23.69 B	3.96 B	415.53 M	18.69 B
# of Analysts	5	2	14	2	1	1
Dividend Yield	3.11%	0.00%	1.65%	0.00%	0.00%	0.50%
Value Score	B	-	-	C	D	F
Cash/Price	0.16	0.06	0.07	NA	0.91	0.03
EV/EBITDA	7.57	14.44	13.37	NA	13.95	25.49
PEG Ratio	1.73	3.09	3.04	NA	NA	NA
Price/Book (P/B)	3.13	2.83	3.17	2.27	NA	6.49
Price/Cash Flow (P/CF)	10.71	20.62	12.78	11.32	7.16	30.46
P/E (F1)	16.01	40.52	21.63	60.63	NA	40.11
Price/Sales (P/S)	1.08	2.47	2.50	1.89	0.20	NA
Earnings Yield	6.24%	2.44%	4.44%	1.62%	-43.61%	2.49%
Debt/Equity	0.53	0.43	0.75	NA	-1.92	0.62
Cash Flow (\$/share)	4.50	1.60	6.94	1.58	1.04	1.13
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	3.24%	5.98%	10.41%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-3.03%	-4.92%	-4.92%	-65.50%	-32.24%	40.98%
Curr. Cash Flow Growth	-11.19%	4.55%	5.22%	NA	306.43%	4.55%
Hist. Cash Flow Growth (3-5 yrs)	-3.17%	8.16%	8.50%	NA	-20.60%	NA
Current Ratio	1.62	1.48	1.34	NA	1.02	1.83
Debt/Capital	34.81%	34.92%	44.18%	NA	NA	38.43%
Net Margin	6.33%	2.38%	10.25%	NA	-17.15%	NA
Return on Equity	17.60%	7.95%	14.66%	NA	NA	NA
Sales/Assets	1.31	0.84	0.50	NA	0.71	NA
Proj. Sales Growth (F1/F0)	-0.10%	-1.41%	-1.45%	-16.81%	-14.62%	9.40%
Momentum Score	C	-	-	D	D	B
Daily Price Chg	-0.47%	0.00%	-0.18%	0.00%	-2.62%	1.37%
1 Week Price Chg	0.08%	-0.36%	-1.45%	14.87%	-20.22%	1.29%
4 Week Price Chg	7.95%	0.00%	2.10%	7.03%	15.02%	8.68%
12 Week Price Chg	24.35%	3.31%	3.61%	-4.56%	-30.30%	23.90%
52 Week Price Chg	20.05%	0.00%	3.61%	-26.22%	-54.11%	52.67%
20 Day Average Volume	476,658	55,715	1,883,291	257	229,305	28,503
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	20.84%	0.00%	0.93%	0.00%	-33.33%	6.17%
(F1) EPS Est 12 week change	36.14%	0.00%	3.41%	-64.46%	-35.57%	10.26%
(Q1) EPS Est Mthly Chg	27.02%	0.00%	0.00%	0.00%	-32.61%	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	C
VGM Score	B

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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