

Nu Skin(NUS)

\$24.73 (As of 02/27/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: A

Summary

Nu Skin's shares have lagged the industry in the past three months. The company has been battling with hurdles in Mainland China and foreign currency headwinds, which lingered in fourth-quarter 2019. During the quarter, earnings and sales declined year over year. Reduced sales leaders, especially in Mainland China, hurt results. Further, management expects the recent coronavirus outbreak to hurt its business in Mainland China in the near term. Management expects sales in Mainland China to fall 20-25% in 2020, wherein currency woes are likely to persist. Nonetheless, Nu Skin remains focused on empowering the customer base and sales leaders through product launches and engaging technology platforms. Incidentally, the company plans to launch a daily-use beauty device, which is expected to be a solid driver in the second half of 2020.

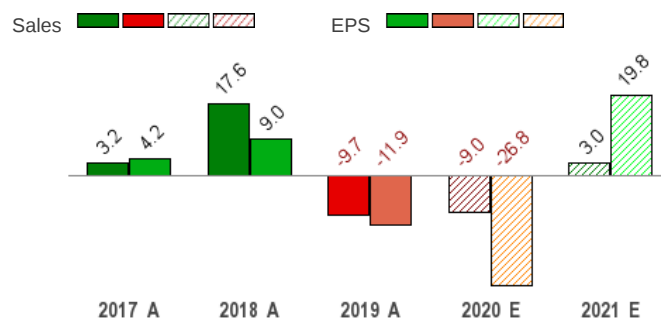
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.90 - \$23.97
20 Day Average Volume (sh)	879,168
Market Cap	\$1.4 B
YTD Price Change	-39.7%
Beta	0.78
Dividend / Div Yld	\$1.50 / 6.1%
Industry	Cosmetics
Zacks Industry Rank	Bottom 12% (224 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	-31.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	8.0
P/E F1	10.9
PEG F1	1.2
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	503 E	568 E	580 E	620 E	2,266 E
2020	492 E	558 E	565 E	586 E	2,201 E
2019	624 A	624 A	590 A	583 A	2,420 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.40 E	\$0.66 E	\$0.74 E	\$0.85 E	\$2.72 E
2020	\$0.28 E	\$0.56 E	\$0.70 E	\$0.71 E	\$2.27 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 02/27/2020. The reports text is as of 02/28/2020.

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.

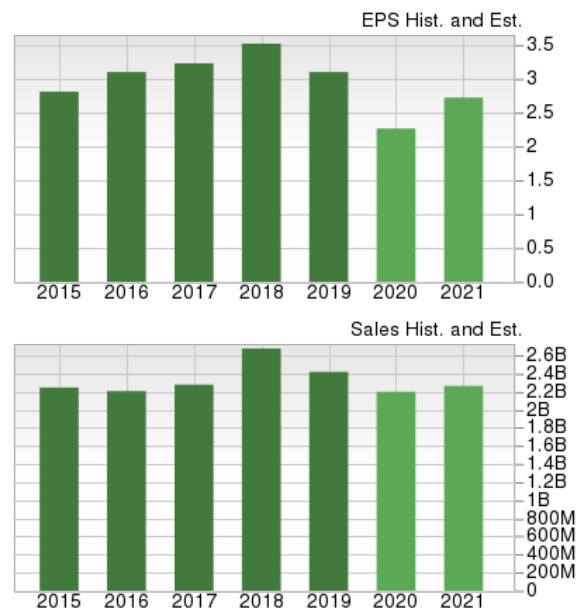
The company has evolved strongly in the skin care treatments arena, more particularly in anti-aging products. Some of the renowned brands of the company in skin care includes ageLOC and Epoch. The company also provides a wide range of hair care and other personal care items.

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 Sell:

▼ **Q4 Results Soft, Stock Underperforms:** Nu Skin continued with its murky performance in fourth-quarter 2019, wherein the top and bottom lines declined year over year for the third straight time. While earnings were hurt by soft revenues and lower margins, revenues were dampened by a reduced number of sales leaders, especially in Mainland China. Also, Nu Skin continued to battle foreign currency headwinds. Markedly, the number of sales leaders and revenues declined in all regions, except for Japan. Further, gross profit declined 15.1% from the year-ago quarter, while gross margin contracted 40 basis points (bps). Dismal performance in the quarter along with soft view and pressures from foreign currency rates is hurting investors' sentiments. The stock has dipped 35.3% in the past three months compared with the industry's decline of 24.8%.

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

▼ **Mainland China Suffers, View Soft:** Revenues and sales leader count remained soft in Mainland China throughout 2019. This resulted from strong negative media coverage of several industries in the region — including food, health and direct-selling industries — and government restrictions on meetings. Meetings play a major role in creating sales leaders. As a result, the aforementioned hurdles adversely impacted sales leaders. In the fourth quarter of 2019, Nu Skin's sales leaders were 54,760, down 25% year over year, with Mainland China accounting for the majority of the decline. Also, the highest drop in revenues was witnessed in Mainland China, where the metric declined 29%.

Further, owing to the recent outbreak of coronavirus, the company decided to put its meetings with sales force and customers on hold in Mainland China. Notably, management expects the outbreak to have a considerable impact on its business in the near term, though prospects in Mainland China are strong in the long run. For now, the company anticipates sales in Mainland China to decline 20-25% for 2020, with the majority of the fall anticipated in the first half. Management expects overall 2020 revenues of \$2.17-\$2.30 billion, whereas it recorded \$2.42 billion in 2019. Further, 2020 earnings are projected to be \$2.00-\$2.40 per share, indicating a decline from \$3.10 delivered in the prior year.

▼ **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 fourth quarter of 2019, the company's top line was hurt by 1% (or approximately \$6 million) due to foreign-currency fluctuations. Nu Skin has been battling currency headwinds for quite some time now. Moreover, management expects foreign currency fluctuations to affect the company's revenues for 2020 by 1-2% and that for the fourth quarter by 2-3%.

▼ **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.

Risks

- **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 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. For 2020, Nu Skin focuses on empowering sales leaders through technological advancements and product launches.
 - **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, the company's relaunched Galvanic Spa device was its best-selling product in the fourth quarter of 2019. Further, it 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. 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. Along with its fourth-quarter earnings release, Nu Skin announced a dividend hike, taking its quarterly dividend from 37 cents per share to 37.5 cents. The raised dividend is payable Mar 11, 2020, to shareholders of record as of Feb 28. This represents the company's 19th straight year of a dividend hike, which reflects its efficient leveraging of a solid financial status.
 - **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 fourth quarter, the company witnessed 2% revenue growth in Japan. The company is on track with implementing various elements of its growth strategy at a global scale to achieve balanced growth.
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Last Earnings Report

Nu Skin Q4 Earnings Meet Estimates, Down Year Over Year

Nu Skin released fourth-quarter 2019 results, wherein quarterly earnings of 72 cents a share were in line with the Zacks Consensus Estimate. However, the bottom line tumbled 31.4% from adjusted earnings of \$1.05 reported in the year-ago period.

Revenues of \$583.4 million fell 14.6% year over year. The Zacks Consensus Estimate was pegged at \$583 million. Fourth-quarter revenues included a negative impact of 1% (or \$6 million) from foreign currency fluctuations. Also, a reduced sales leader count due to declines in Mainland China hurt revenues.

Sales leaders were 54,760, down 25% year over year, with Mainland China accounting for the majority of the decline. In fact, sales leaders deteriorated in all regions, except for Japan where it was flat. Further, Nu Skin's customer base fell 7% to 1,162,905, with declines in all regions apart from EMEA.

Gross profit was \$442.8 million, down 15.1% from the year-ago quarter's figure. Gross margin contracted 40 basis points (bps) to 75.9%. Nu Skin's base business's gross margin expanded 60 bps to 78.5%.

Selling expenses amounted to \$228.1 million, which accounted for 39.1% of revenues compared with 39.4% in the year-ago quarter. Meanwhile, general and administrative expenses of almost \$160 million accounted for 27.4% of revenues, up from 23.9% reported in the year-ago quarter. The increase resulted from higher convention costs.

Operating income more than doubled to \$54.7 million and the operating margin grew from 2.7% to 9.4% in the quarter. Notably, the year-ago period's results included impairment and restructuring charges.

Regional Results

Revenues declined across most regions, except for Japan where sales improved 2% from the prior-year quarter's level. The highest drop was witnessed in Mainland China, where the metric declined 29%. Further, revenues fell 9% in the Americas/Pacific, 20% in South Korea, 7% in Southeast Asia, 13% in Hong Kong/Taiwan and 9% in EMEA.

Other Financial Details

Nu Skin ended the quarter with cash and cash equivalents of \$335.6 million, long-term debt of \$334.5 million and stockholders' equity of \$875.3 million. During the quarter, Nu Skin paid out dividends of \$20.6 million.

In a separate press release, the company announced a dividend hike, taking its quarterly dividend from 37 cents per share to 37.5 cents. The raised dividend is payable Mar 11, 2020, to shareholders of record as of Feb 28. This represents the company's 19th straight year of a dividend hike, which reflects its efficient leveraging of a solid financial status.

Guidance

For 2020, Nu Skin focuses on empowering sales leaders through technological advancements and product launches. Incidentally, the company's relaunched Galvanic Spa device was its best-selling product in the fourth quarter of 2019. Also, LumiSpa performed well. The company plans to launch a daily-use beauty device, which is expected to be a robust business driver in the second half of 2020.

However, owing to the recent outbreak of coronavirus, the company decided to put its meetings with sales force and customers on hold in Mainland China. Notably, management expects the outbreak to have a considerable impact on its business in the near term, though prospects in Mainland China are strong in the long run. For now, the company anticipates sales in Mainland China to decline 20-25% in 2020, with adverse currency impacts of 1-2%.

Management expects Nu Skin's overall business to return to growth in the fourth quarter, backed by the planned launch of the daily-use beauty device. It expects revenues of \$2.17-\$2.30 billion for 2020, including currency headwinds of 1-2%. In 2019, Nu Skin's revenues amounted to \$2.42 billion. Further, 2020 earnings are projected to be \$2.00-\$2.40 per share, indicating a decline from \$3.10 reported in the prior year. The Zacks Consensus Estimate for earnings is currently pegged at \$3.30 per share.

For the first quarter, the company projects revenues of \$480-\$510 million, including adverse currency impacts of 2-3%. Earnings are anticipated between 22 cents and 33 cents per share.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	0.02%
EPS Surprise	0.00%
Quarterly EPS	0.72
Annual EPS (TTM)	3.11

Valuation

Nu Skin shares are down 39.7% in the year-to-date period and 58.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 28% and 5.1%, respectively in the year-to-date period . Over the past year, the Zacks sub-industry is down 11%, while the sector gained 5.2%.

The S&P 500 index is down 3.3% in the year-to-date period while up 10.2% in the past year.

The stock is currently trading at 10.57X forward 12-month earnings, which compares to 21.37X for the Zacks sub-industry, 18.7X for the Zacks sector and 17.81X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our \$21 price target reflects 8.98X 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	10.57	21.37	18.7	17.81
	5-Year High	22.61	29.46	22.38	19.34
	5-Year Low	8.9	19.65	16.66	15.18
	5-Year Median	15.85	23.87	19.68	17.46
P/S F12M	Current	0.62	3.05	9.53	3.28
	5-Year High	1.85	4.02	11.13	3.43
	5-Year Low	0.62	1.53	8.09	2.54
	5-Year Median	1.23	2.69	9.88	3
EV/EBITDA F12M	Current	5.18	20.14	40.02	12
	5-Year High	11.94	25.9	44.94	12.87
	5-Year Low	4.36	12.84	31.55	8.48
	5-Year Median	8.14	19.27	38.46	10.78

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (224 out of 254)



Top Peers

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

Industry Comparison Industry: Cosmetics				Industry Peers		
	NUS Underperform	X Industry	S&P 500	PORBF Underperform	REV Neutral	SYIEY Neutral
VGM Score	B	-	-	D	F	D
Market Cap	1.37 B	1.28 B	21.35 B	4.23 B	967.79 M	12.73 B
# of Analysts	5	3.5	13	1	1	1
Dividend Yield	6.07%	0.00%	2.02%	0.00%	0.00%	0.66%
Value Score	B	-	-	D	F	D
Cash/Price	0.21	0.05	0.04	0.15	0.06	NA
EV/EBITDA	4.43	18.12	12.70	NA	40.79	NA
PEG Ratio	1.18	3.13	1.84	13.57	NA	NA
Price/Book (P/B)	1.57	2.80	2.92	2.43	NA	NA
Price/Cash Flow (P/CF)	5.49	24.66	11.89	29.92	67.68	NA
P/E (F1)	10.89	27.81	16.90	21.72	NA	29.90
Price/Sales (P/S)	0.57	2.02	2.39	NA	0.39	NA
Earnings Yield	9.18%	3.59%	5.90%	4.60%	-12.26%	3.34%
Debt/Equity	0.50	0.24	0.70	NA	-2.37	NA
Cash Flow (\$/share)	4.50	1.62	6.94	0.64	0.26	NA
Growth Score	D	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	4.39%	4.39%	10.85%	NA	-3.96%	NA
Proj. EPS Growth (F1/F0)	-26.90%	6.20%	6.79%	2.92%	26.12%	7.89%
Curr. Cash Flow Growth	-11.19%	-6.78%	5.92%	NA	-80.42%	NA
Hist. Cash Flow Growth (3-5 yrs)	-3.17%	8.22%	8.38%	NA	-36.35%	NA
Current Ratio	2.07	1.88	1.23	5.09	1.13	NA
Debt/Capital	33.46%	33.46%	42.53%	NA	NA	NA
Net Margin	7.17%	4.92%	11.57%	NA	-10.31%	NA
Return on Equity	20.62%	10.22%	16.80%	NA	NA	NA
Sales/Assets	1.37	0.95	0.54	NA	0.81	NA
Proj. Sales Growth (F1/F0)	-9.06%	4.30%	4.07%	2.85%	0.74%	9.97%
Momentum Score	A	-	-	F	B	B
Daily Price Chg	-3.29%	-1.44%	-3.99%	-4.32%	-2.61%	-2.49%
1 Week Price Chg	-2.00%	-1.20%	-0.94%	-4.32%	-2.61%	-0.52%
4 Week Price Chg	-27.69%	-6.72%	-9.83%	-19.81%	-19.80%	-4.70%
12 Week Price Chg	-34.40%	0.00%	-6.79%	-22.48%	-23.41%	2.38%
52 Week Price Chg	-58.86%	-10.91%	2.79%	-30.31%	-34.28%	11.45%
20 Day Average Volume	879,168	32,244	2,169,477	555	49,963	72,186
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-31.38%	-0.03%	-0.09%	-10.66%	0.00%	0.00%
(F1) EPS Est 12 week change	-31.21%	-1.32%	-0.24%	-16.59%	0.00%	12.33%
(Q1) EPS Est Mthly Chg	-63.79%	-0.11%	-0.72%	NA	0.00%	NA

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	D
Momentum Score	A
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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