

# INVESTOR'S BUSINESS DAILY

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## THE NEW AMERICA

**NU SKIN ENTERPRISES** Provo, Utah

### Slow Economy Fails To Put A Crease In Eternal Desire To Look Young

BY KEVIN HARLIN

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There have been many casualties of the global economic slump. But the economy hasn't stopped another war: the one against aging.

In fact, in some ways, economic troubles have helped **Nu Skin Enterprises**<sup>NUS</sup>, the direct seller of anti-aging skin care and nutrition supplements.

Its global network of active distributors, those who buy its products and sell them Tupperware-party-style to their friends, held steady through 2009, at 761,000.

But the number of what the company calls "executive distributors," the real high-volume sellers, climbed 7.7% over the year to 33,000.

Nu Skin CEO Truman Hunt says that shows more people turning to his company's multilevel marketing business to supplement or replace lost income.

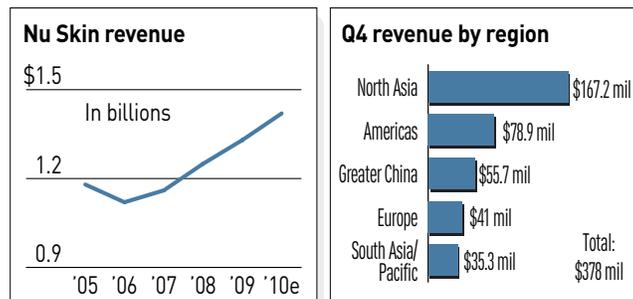
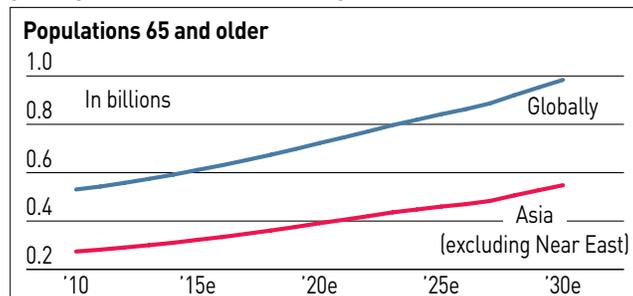
A new premium skin care line, ageLOC, has boosted sales margins. Another ageLOC line is slated for the nutritional supplement side as well.

"I've been here for 15 years — CEO for 7 years — and it really is the best of times right now," Hunt told IBD. "Even in the face of some stiff economic head winds over the past few years, we've really been fortunate to move our business forward."

The company, based in Provo, Utah, formed in 1984. It went public in 1996.

#### March Of Time

Time may march on relentlessly, but that isn't stopping the fight against it. This creates a naturally growing market for anti-aging company Nu Skin Enterprises. Asia, one of its key markets, is growing faster than the rest of the globe.



Sources: Census Bureau, company reports, Thomson Reuters

By the end of last year, it had 1,200 employees.

But the real growth engine is that army of distributors.

They market and sell the company's 200 anti-aging creams, gels and nutritional supplements in 50 markets around the globe.

They generated a record \$1.33 billion in sales in 2009, a 7% jump over the prior year. The company says 42% of revenue is paid back out in commissions. Earnings per share climbed 48% to \$1.51.

The company sells products for men, though women

are the primary demographic. And Asian women have been key to that success.

Eighty-four percent of revenue and more than 70% of profits came from outside the U.S. last year. Japan was its top market, accounting for 35% of revenue. South Korea is key, too.

Greater China, including Taiwan and Hong Kong, accounted for 15.8%. Regulatory obstacles in mainland China have hampered growth there. But with recent law changes and company retooling, that nation has huge potential, Hunt says.

Hunt says women — and

men — everywhere want to look young. "But perhaps that appetite is particularly robust in the Asian market," he said. "They spend a lot of money on how they look. But they also want to buy the highest-quality product."

But across the globe, age is a growth market. U.S., European, and Asian populations, all key markets, are graying.

More than 530 million people worldwide, 8% of the global population, are 65 or older, according to U.S. Census Bureau estimates. The Census projects that count to surge 85% in 20 years to almost 1 billion people. In Asia, the figure is expected to double in that same period.

Citing that and other studies, Nu Skin says the anti-aging market is growing at 20% a year.

"We feel we're actually losing market share if we're not growing at least that rate," Hunt said.

The company says innovative new products are key to growth.

Hunt pointed to the success of ageLOC, the premium product line launched last fall. It's now being rolled out across the network and should reach China in the fourth quarter, the company says.

Analysts have been happy with that line's performance and hold out hope that an ageLOC line in development for the supplements side of the business will show promise, too.

(Continued)

“We believe Nu Skin begins 2010 with excellent product momentum,” Jefferies & Co. analyst Douglas Lane wrote in a client note.

The company has 75 scientists on its payroll and works with outside researchers to develop its products, which it says target aging at the level of the human genome.

Nu Skin says it’s unique in that it fights aging from the inside with its nutritional products and the outside with its skin care and beauty lines.

The skin care products are sold under the Nu Skin brand, which accounted for 56.5% of sales last year. The nutritional supplements are sold under the Pharmanex brand,

which accounted for 42.5%.

A tiny, third business line offers water purifiers and other household products. That made up just 1% of sales last year.

In the fourth quarter, the company posted \$378.1 million in sales, up 19% from a year ago. EPS was double a year ago at 46 cents, according to Thomson Reuters.

Analysts say first-quarter EPS will rise 50% to 42 cents. They expect full-year EPS of \$1.77, up 17%.

But with so much of sales occurring overseas, currency fluctuations can boost or slice earnings.

Currency had little effect on full-year 2009 results. But for the fourth quarter, it raised revenue by 7%.

The dollar has risen against some key currencies since then, which might pinch future earnings.

The company also faces a host of legal and regulatory restrictions in some markets. In the U.S., for instance, the company can’t claim that its nutritional supplements will treat or prevent any diseases, though it can make more broad health claims.

In Japan, its supplements are regulated and marketed as a food product and have to abide by a different set of guidelines.

And its active-distributors count fell 8% in China, though the company said that was a factor of it changing distribution models to fit evolving regu-

lations there. It expects distributor growth there in 2010.

The economic slump in Japan has also taken its toll. In local currency, sales were down 1% in the fourth quarter, though the company says the age-LOC launch there prevented a bigger dip.

Nu Skin says it believes the dips are moderating in Japan and that 2010 could tick up from last year.

Still, Avondale Partners analyst Bret Jordan is more cautious. He wants to see more than just moderating rates of decline in Japan.

“While business momentum shows signs of improvement, real recovery still hinges largely on the challenged Japanese economy,” he wrote in a client note.