



Nu Skin Enterprises (NUS)

Updated August 7th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	11.3%	Market Cap:	\$2.2 B
Fair Value Price:	\$54	5 Year Growth Estimate:	3.9%	Ex-Dividend Date:	08/25/2022
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Dividend Payment Date:	09/07/2022
Dividend Yield:	3.6%	5 Year Price Target	\$66	Years Of Dividend Growth:	22
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Nu Skin Enterprises is a health and beauty direct-selling company with diverse product lines. The company has three main product divisions: anti-aging, skin, and pharmaceuticals. The latter division offers nutritional, weight-management products and food supplements. The company has operations internationally, in more than 50 countries across the Americas, Europe, and the Asia-Pacific. Nu Skin's anti-aging and skin-related products include peels, masks, scrubs; moisturizers; body care, hair care, men's care, oral care, sun protection, and cosmetics. Moreover, the company sells its product directly to consumers through its own sales channel and has a sizable market overseas. The company's revenues are reported under seven regional segments: Mainland China, EMEA regions, Americas/Pacific, South Korea, Southeast Asia, Japan, and Hong Kong/Taiwan.

On Aug 4th, 2022, Nu Skin announced Q2 2022 results, reporting quarterly earnings of \$0.67, down 41.7% YoY, missing consensus estimates by \$0.10. In addition, the company reported revenues of \$560.6 million for the quarter, down 20.4% YoY. China was the most significant revenue contributor during Q2 2022 and accounted for 15.5% of the company's total sales. The management noted that the results during the second quarter were affected by COVID-related headwinds in Mainland China. In addition, the Russia-Ukraine conflict, worsening global economic conditions, and the growing strength of the US dollar resulting in FX losses, all contributed to the weak results during the quarter.

While commenting on the full-year 2022 outlook, the company revised its revenue guidance downwards to \$2.33 to \$2.41 billion for the year as opposed to the previous guidance of \$2.51 to \$2.62 billion. Respectively, the EPS guidance also decreased to \$3.30 to \$3.60 from \$3.60 to \$3.90 previously. The company cited uncertainties in global markets, pressure on foreign exchange, and COVID-19-related risks for the downward revisions. As of today, Nu Skin stock is down by 17.2% YTD versus the S&P 500's decline of 13.5% during the same period. Earlier this year, the CEO announced Nu Vision 2025 to become the world's leading integrated beauty and wellness company, powered by the company's dynamic affiliate opportunity platform.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.52	\$5.94	\$3.11	\$2.25	\$2.91	\$3.23	\$3.52	\$3.10	\$3.63	\$4.14	\$3.42	\$4.14
DPS	\$0.80	\$1.20	\$1.38	\$1.40	\$1.42	\$1.44	\$1.46	\$1.48	\$1.50	\$1.52	\$1.54	\$1.72
Shares	58.4	59.0	59.0	56.0	52.6	52.7	55.4	55.6	50.9	49.8	50.2	46.7

Nu Skin Enterprises has grown its EPS by a CAGR of 6.1% over the past five years, much faster than its long-term 9-year average of 1.8%. Moreover, the company consistently increased its dividend payments for the past 22 years. In line with the worsening macro-operating environment for the company, we have revised our 2022 EPS forecast to \$3.42 from \$3.79 due to analysts' estimates. We maintain our forecast of 3.9% growth in EPS in the next five years, leading to our estimated EPS of \$4.14 by 2027. We expect the company to follow its historical dividend payout policy and provide a dividend yield of 2.6% in 2027.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	13.5	13.3	20.7	20.3	16.2	18.5	20.8	15.3	11.0	12.3	12.7	15.9
Avg. Yld.	1.7%	1.5%	2.1%	3.1%	3.0%	2.4%	2.0%	3.1%	3.7%	3.0%	3.6%	2.6%

Nu Skin Enterprises currently trades at a forward P/E of 12.7, which is significantly lower than its long-term 10-year average P/E of 16.2 and five-year average P/E of 15.6. We have estimated a P/E multiple of 15.9 by 2027, implying the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

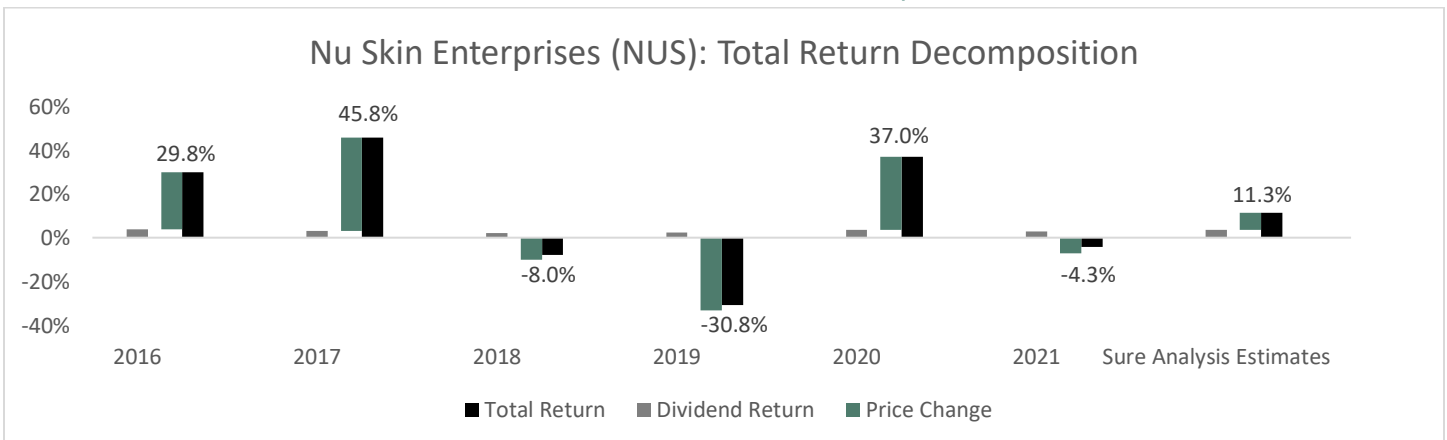
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	20%	44%	62%	49%	45%	41%	48%	41%	37%	45%	42%

Earlier this year, the CEO announced Nu Vision 2025 - to become the world's leading integrated beauty and wellness company, powered by the company's dynamic affiliate opportunity platform. The company's vision for the future reflects management's plan to keep up with the global trends and changing consumer behaviors. Investments in digital infrastructure and building a digital ecosystem is a core part of the company's long-term strategy. By 2025, the company aims for its affiliate-powered social commerce to represent more than 50 percent of its global business, which will accelerate overall top-line growth to higher levels than the current growth. However, operating in the cosmetics and beauty segments means there are some risks associated with investing in Nu Skin. The segment is marked by intense competition, and the market already has established players who have longer operating histories and excellent brand recognition and resources compared to Nu Skin. Some of the main competitors of Nu Skin are L'Oréal, Clinique, Estée Lauder, Nature's Way, Avon Products and Mary Kay. Also, the industry is susceptible to changes in consumer behavior and evolving lifestyle preferences. Hence, the company's success in the future will depend on Nu Skin's ability to innovate and keep developing products that respond to the changing needs of the consumers.

Final Thoughts & Recommendation

Nu Skin has successfully run its business efficiently throughout various economic cycles and has consistently paid dividends and generated value for investors. The payout ratio has averaged 41% during the 2012-2021 period. Our buy rating on the stock is premised upon the 11.3% annualized total return forecast for the medium term, derived from 3.9% earnings-per-share growth, a 3.6% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,132	3,177	2,569	2,247	2,208	2,279	2,679	2,420	2,582	2,696
Gross Profit	1,779	2,671	2,091	1,758	1,707	1,777	2,045	1,839	1,924	2,020
Gross Margin	83.4%	84.1%	81.4%	78.2%	77.3%	78.0%	76.3%	76.0%	74.5%	75.0%
SG&A Exp.	1,438	2,117	1,739	1,513	1,476	1,503	1,733	1,572	1,666	1,735
D&A Exp.	33	35	55	71	72	72	83	77	74	76
Operating Profit	341	554	352	245	231	274	312	267	258	286
Op. Margin	16.0%	17.4%	13.7%	10.9%	10.5%	12.0%	11.6%	11.0%	10.0%	10.6%
Net Profit	222	365	189	133	143	129	122	174	191	147
Net Margin	10.4%	11.5%	7.4%	5.9%	6.5%	5.7%	4.5%	7.2%	7.4%	5.5%
Free Cash Flow	214	345	(158)	265	225	242	132	112	315	73
Income Tax	124	192	109	79	70	136	98	82	65	85

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,125	1,821	1,614	1,506	1,474	1,590	1,694	1,769	1,957	1,906
Cash & Equivalents	320	525	288	289	357	426	387	336	403	340
Acc. Receivable	37	69	36	35	31	33	53	50	63	41
Inventories	136	340	338	265	250	253	296	276	314	400
Goodwill & Int.	205	196	188	179	179	183	287	277	293	283
Total Liabilities	534	962	672	680	810	885	913	894	1,063	994
Accounts Payable	48	83	35	29	41	50	48	39	66	50
Long-Term Debt	194	182	247	250	417	389	430	362	335	376
Total Equity	591	859	942	826	664	705	782	875	894	913
LTD/E Ratio	0.33	0.21	0.26	0.30	0.63	0.55	0.55	0.41	0.38	0.41

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	21.0%	24.8%	11.0%	8.5%	9.6%	8.4%	7.4%	10.0%	10.3%	7.6%
Return on Equity	38.1%	50.4%	21.0%	15.1%	19.2%	18.9%	16.4%	20.9%	21.6%	16.3%
ROIC	29.6%	40.0%	17.0%	11.7%	13.3%	11.9%	10.6%	14.2%	15.5%	11.7%
Shares Out.	58.4	59.0	59.0	56.0	52.6	52.7	55.4	55.6	50.9	49.8
Revenue/Share	33.83	51.70	42.20	38.05	39.36	41.55	47.44	43.28	48.93	52.42
FCF/Share	3.40	5.62	(2.59)	4.50	4.01	4.42	2.34	2.00	5.98	1.42

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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