

INVESTOR'S BUSINESS DAILY

MONDAY, MARCH 21, 2005

THE NEW AMERICA

USANA HEALTH SCIENCES Salt Lake City, Utah

New Recipe Leads To New Revenue Growth

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Think of it as addition by subtraction.

That's the way officials at Usana^{USNA} look at improved sales of the company's Sense brand of products.

In September, Usana — a manufacturer and direct seller of health, skin and personal care products — re-launched the Sense line using its own preserving technology. The new technology replaces the group of preserving chemicals, called parabens, that used to be among the ingredients.

Parabens are commonly used to extend the life of almost all cosmetics, but they've been linked to tumors and other health problems.

Usana's parabens-free lineup really has struck a cord with consumers. Though the firm's nutritional products still comprise the bulk of sales, the Sense line generated 16% of sales last quarter, up from about 13% the prior quarter.

Analyst Scott Van Winkle of Adams Harkness figures Sense's sales will continue to grow at a rapid clip.

"It's not unrealistic to see that (Sense) business double over the next 12 to 24 months," said Van Winkle, whose employer has a non-investment banking rela-



Usana's move to reformulate its line of Sense skin care products paid off as sales of the line moved higher.

Usana Health Sciences usanahealthsciences.com

Ticker	USNA
Share price	Near 45
12-month sales	\$272 mil
5-year profit growth rate	56%

IBD SmartSelect Corporate Ratings

Earnings Per Share	93
Relative Price Strength	93
Industry Group Relative Strength	B+
Sales+Profit Margins+ROE	A
Accumulation/Distribution	B+

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tionship with Usana. "Historically, Usana was a direct seller of vitamins with a small average personal care line, but this new line is no longer average."

The new formulation is pending a patent that's expected to be granted soon. It uses a combination of botanicals, antioxidants and other ingredients to keep products fresh. The items boast the same two-year shelf life as products with parabens.

Usana Chief Financial Officer Gil Fuller says he's not aware of any other major manufacturer that can make skin care products without traditional chemical preservatives.

"We don't know what kind of legs (the new line) will have, but we're genuinely enthused about it," Fuller said.

Increased sales from the reformulated line buoyed Usana's fourth-quarter results.

Total revenue for the quarter rose 26% from the prior year to \$75.1 million. Earnings moved up 44% to 46 cents a share. Van Winkle figures sales of the Sense line climbed about 25% to \$12 million.

Full-year earnings grew 48% to \$1.51 cents a share. Sales rose 36% to \$273 million.

First Call analysts see profit this year reaching \$1.89 a share.

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The fact that Usana is out in the market early with the parabens-free line gives it a big edge, watchers say.

The company competes in a crowded market where product differentiation is key. It's important for direct sellers to have a story behind the products they peddle door to door.

"We believe that Sense underperformed in the past because it lacked differentiation, and thus provided no story for distributors to tell," Van Winkle wrote in a report.

Now sales reps can pitch the fact that it's the first-of-its kind product line, discuss the benefits over traditional products and offer testimonials.

The new line also offers an opportunity for incremental sales. One way to do that is to cross-sell the new skin care products to customers who already buy Usana's vitamins.

Another potential growth driver is Usana's move to enter new markets. Last March it opened up distribution in Mexico for the first time.

Mexico is the world's fourth-biggest market for direct sellers and a key reason Usana entered the market, Fuller says.

"We also did a lot of work surveying our (associates), and they had a keen interest in (Mexico)," Fuller said.

Look for Usana to enter another new market by the end of this year's third quarter. Fuller wouldn't say where, but analyst Van Winkle says it could be in Asia, though not China.

The company does plan to enter China at some point. The holdup is that it's wait-

ing on new Chinese government regulations relating to the direct sales industry. Meantime, the company is doing a lot of groundwork in preparation of entering the market.

Fuller says one reason China holds a lot of potential is that other direct sellers, such as Alticor's Amway, do very well there.

As for new products: Usana tends to move pretty slowly in that area. The company's strategy is to add a new product or reformulate an existing one about once a year.