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THE NEW AMERICA

USANA HEALTH SCIENCES, Salt Lake City, Utah

A Million Bucks Says Its Nutritional Products Are Clean

BY AMY REEVES

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The controversy over athletes taking performance-enhancing drugs has become so heated that President Bush even mentioned it in his State of the Union address last month.

The bad press is affecting an industry that makes much of its living off athletes: vitamin production.

The industry found itself under increasing scrutiny after athletes such as U.S. Olympic shot-putter C.J. Hunter blamed their failed drug tests on benign nutritional supplements.

The committee that oversaw the Winter Olympics two years ago advised athletes not to take supplements offered in gyms during their training.

Last month, vitamin maker USANA Health Sciences Inc. decided to fight back. It offered to pay up to \$1 million to pro athletes who failed drug tests because of its products.

"We take pains to make sure we don't put bad stuff in our products," said Chief Financial Officer Gil Fuller. "We'll put our money where our mouth is."

The deal is available only in Canada. It came about as a result of USANA's work with Canadian athletes, Fuller says.

Only athletes who've never failed a drug test are eligible. They must also agree to a fairly regimented program. USANA has received inquiries but no takers.

Credibility Is Everything

The campaign speaks volumes about the company's marketing approach.

You won't find its vitamins on the shelves of any store. USANA gets all of its sales from its network of 88,000 associates — who, like Tupperware reps and

Amway dealers, are ordinary people who bend their neighbors' ears.

Because this type of selling has a dubious reputation, credibility is everything to USANA.

"We tend to follow the scientific research that has been done on nutritional supplements," Fuller said. "We constantly reformulate our products, refresh and strengthen them."

USANA hasn't had much trouble finding buyers. The company, which also sells beauty and weight-loss products, has strung together seven straight quarters of double-digit sales growth.

Revenue during the fourth quarter rose 55% from the prior year to \$59.5 million. Earnings doubled to 32 cents a share.

Earnings for 2003 grew 139% to 98 cents a share, while sales gained 50% to \$200 million.

Awakening The Street

USANA's numbers are starting to get Wall Street's attention. Analyst David Block of Seidler Cos. initiated coverage on USANA in October, ending a long spell with no analyst coverage.

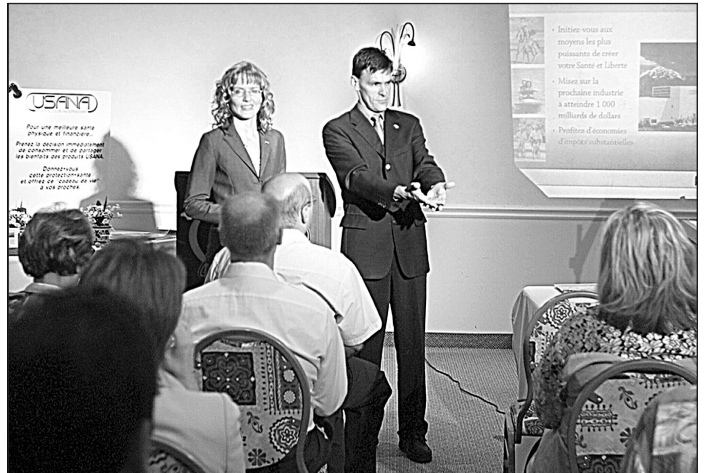
"It's a great story with an excellent model," Block said. "There's tons of room left to grow."

He says Wall Street might be a little wary of USANA because of its sales method.

Many people probably liken it to a pyramid scheme, with the firm making its money from gaining new salespeople rather than selling products.

Block says he's researched the issue carefully, and he's convinced USANA's legit. The reason the company uses its sales method is because its nutrition-packed products cost more than most other supplements.

If USANA's products were sitting on a shelf in a store, custom-



Vitamin maker USANA recruits and trains regular folks for its direct sales force, which now numbers 88,000.

USANA Health Science usana.com

Ticker	USNA
Share price	Near 28
12-month sales	\$200 mil
5-year profit growth rate	13%

IBD SmartSelect Corporate Ratings

Earnings Per Share	93
Relative Price Strength	84
Industry Group Relative Strength	A-
Sales+Profit Margins+ROE	A
Accumulation/Distribution	C-

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ers probably wouldn't read the fine print and understand their value, he says.

Last year the company gained 22,000 new sales associates, a 33% gain.

More than a few of those have come from outside North America. USANA also operates in East Asia, Australia, New Zealand, the U.K. and the Caribbean. On Feb. 9 it opened an office in Mexico, and hopes to start generating sales there in the next few weeks.

Block says the only sign of trouble has been in South Korea, which USANA entered in last year's third quarter. Fourth-quarter results in South Korea were disappointing, Block says.

"But I think a large part of that

was the credit-card crunch in South Korea then," he said.

CFO Fuller says USANA plans to keep growing its international presence, though it likely won't enter another country until 2005.

"Our current plans are to focus on the markets we're in," he said. "We want to make sure we're solidly positioned there."

Gaining Ground

USANA isn't the only direct-seller of vitamins. Others include Mannatech Inc. and Nature's Sunshine Products. USANA's main rival is Nu Skin Enterprises, which has been around a little longer.

Nu Skin operates in 34 countries and generates almost five times as much revenue as USANA. But its emphasis is different. USANA makes mostly nutritional products with a sideline in personal care. Nu Skin is the reverse.

Block says USANA is gaining ground on its older rival.

"USANA generated more revenue in the U.S. last year," Block said. "They have a lot of growth ahead."

He expects the company's earnings this year to rise 44% to \$1.41 a share.

