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MANAGEMENT DISCUSSION SECTION

Unverified Participant:
We have Nu Skin presenting next, which is a leading global direct seller of personal care and nutritional supplements with operations in approximately 45 countries throughout Asia, the Americas, and Europe. Approximately 88% of the company's revenue last year came from outside the U.S., with Japan its largest market and representing about 30% of total consolidated sales. In May, the board approved to increase its stock repurchase by $250 million for a total of $330 million in funds. Typically, the company repurchases about 2% of shares outstanding each year. We are very pleased to have with us today the company's CEO, Mr. Truman Hunt, to elaborate further on Nu Skin's growth strategy and business trends.

M. Truman Hunt:
Good morning, everyone. Thank you for joining us today. It seems awfully dark up here. Hopefully you can see me through the dark. As our guest introduced, we're a 28-year-old company, based in Provo, Utah, one of the leading drug sales companies in the world. It's been a very interesting quarter for us, having had quite a bit of volatility and where our stock has traded over the course of last couple of months and I'll touch on that here in a minute.
But first, let's just talk about business results for the first quarter, which in some way seems like ancient history right now, but 17% up on the top line and a nice 32% up on the bottom line. Nice improvement in our operating margins and while we're obviously very pleased with first quarter results, just surprised with the way our stock traded in response. So, subsequent to the release of our first quarter results, we increased our authorization for share repurchases by $250 million, we had about $80 million still outstanding on our prior authorization, so a healthy level of share repurchase authorization.
We also announced a week after that the results of our recent product launch in the Greater China and South-East Asia regions where we generated $150 million of sales, which was ahead of our expectations and led us to increase our guidance by $40 million on the top-line, which is about a $0.06 EPS impact, for the full fiscal year - for the full calendar year of 2012.
And then shortly after we announced results, we began to trade down in

sympathy with another company in our industry as a result of some concerns over a possible short strategy that may be executed by him and perhaps other hedge funds. I wanted to just present a couple of slides that answer the most common questions that we get about our business in result of these concerns.
First of all, let's just take a quick look at how people come into the Nu Skin world, we're a direct selling company, so none of our products are sold through traditional retail channels or other traditional retail mechanisms, our distribution is person-to-person. So you can come into the Nu Skin world as a direct customer of one of our distributors somewhere in the world or alternatively, you could join the company and become a direct retail customer from the company itself or become a preferred customer where you enter into an agreement to purchase products on an automatic ongoing basis monthly, for which we provide those types of customers a nice discount in exchange for their subscription order.
About 50% of the people who join our world today in the United States fall into either the company direct or preferred customer category. So again, these are peoples who are not building a business themselves, they are just simply consuming Nu Skin products.
And then we have distributors. These are peoples who purchase products at wholesale prices, and who have the right to resell those products to end users, but these people typically do not qualify for multilevel compensation, which is kind of the high octane component of the business opportunities that we offer. Those who do participate in the income opportunity, we call executive distributors. And these are people who meet certain sales qualification levels. And I'll show you a chart here in a minute that if we were to categorize these types of four participants into two general categories, we would call retail preferred and distributor people, our consumer network and we would call executive distributors, and those who work qualifying to become executive distributors, part of our self network.
So, the way these businesses work, our executive distributors essentially have people in their groups. And these little icons represented next to the people in blue represent the fact that all of our executives will have all of these different types of people in their groups. They will have customers, who they sell to directly. They will have customers who buy directly from the company and they will have preferred customers who were also part of their own consumer network.
Virtually, every direct selling company out there, including all of the majors ones Avon, Tupperware, for example, all employ some form of multilevel compensations like this. It's just a question of what the percentage payout is and how many levels, how many generations of pay out each company pays out. One of the common concerns about direct selling companies is that people pay money in and participants receive commissions, based on just the recruiting fees that some companies might pay. In Nu Skin's case, no commissions are paid for recruiting. Commissions are only paid on the sale of product.
So, we, as like other companies, do not have complete visibility on the extent to which our sales network resells product to consumers, in that we don't - we can't identify by name or by location, who those consumers are, because we just don't know who they are. But based on volume that comes directly from the company, we can very comfortably say that more than 70% of our sales volume is going into a consumer base and about 30% of our sales

volume or less than 30% of our sales volume is sold into our sales network, who then, in turn, is not just consuming those product themselves, but they are also reselling to their customers.

So, I have to tell you there's - it's a little bit - I get a little bent out of shape frankly, when people argue that direct sales companies like ours don't have real consumers, because we do. We have a very, very healthy consumer base, and we also know that our sales force is reselling to consumers. You have to forgive me if I get a little bent out of shape with you on that particular question.

Now in the last couple of months, we have also disclosed - I think that's the last build there. We've also disclosed the retention rate on both our customer base, as well as on our sales force. So, as this slide reflects, if you look at the number of people who were in our consumer network on December 31, 2010, versus those same people on December 31, 2011, 50% of them would have been retained. And similarly within our sales leadership group, our executive distributors, the retention rate on a year-over-year basis is about 60%, which we find that people are typically surprised here, because I think that often in a direct selling business, people assume that there's just a huge churn rate of consumers and executive distributors. And as this slide shows that not's the case, we actually enjoy a good level of retention on an annual basis.

So with those questions addressed, let me just talk about the five investment highlights that we would think people should consider as they consider investment in Nu Skin Enterprises. We're one of the few direct selling companies that has significant product substance in both the nutrition space, as well as the personal care space. Typically, a direct sales company will be 90% plus one, or 90% plus the other. We happen to enjoy very substantial businesses in both of these categories, because we feel that these are the two most important categories for anti-ageing generally. And so we have to be able to address both of them effectively.

Our most recent product platform is called the ageLOC product platform. We introduced this concept about three years ago. And let me just quickly explain what the difference is here. We have found over the last several years that one of the key scientific insights that consumers are really only now becoming aware of, is that everything we're eating, everything we're breathing, all of the environmental factors that weigh up on us, including those ingredients that we apply ourselves topically, it's all weighing on the way our genes express themselves. We view the human genome as the ultimate source of ageing and all of the factors that we are subject to are weighing on the way our genes express themselves.

Science only recently since the human genome was mapped out about not less than 10 years ago. Science is now able to verify the impact of ingested products or topically applied products on the way they impact genetic expression. That's huge, because for the first time companies are able to figure out, what their dietary supplements or even what their topical products are doing to the genes that most impact the aging processes.

We happen to have struck an exclusive relationship with a company called LifeGen Technologies and actually acquired that company in the fourth quarter of last year. They have been managing an ageing database for over 30-year period of time in conjunction with University of Wisconsin and have the world's foremost database in terms of tissue that they have collected and have a unique ability to help us monitor the impact of our products on genetic expression. So the ageLOC platform is all about the formulation of products that most optimally influence genetic expression in various forms of ageing.

So the result of that over the last three years has been a brand that already represents more than $1 billion in sales. As I mentioned, we acquired LifeGen in the fourth quarter of 2011. Both because, we wanted to secure our exclusive access to that company and their technology, but also it ended up being an accretive transaction, as we were paying them a royalty on products they helped us develop. We're in the process of building a new Innovation Center at our headquarters in Provo, Utah and remain fully committed to continuing to innovate on this platform for many years to come.

In the last six months, the two product releases that we have enjoyed very good success with, the first is called the ageLOC Body Spa. This is a device that emits a low level electrical current and is accompanied by gel that people apply topically obviously. And by applying them in conjunction with the Spa, the similarly charged active ingredients in the gel are repelled by the little electrical device, so that they penetrate the skin more effectively and significantly improves the effectiveness of the product. In this case, firming and toning skin.

And I can tell you the before and after pictures that are coming in from around the world are really dramatic with this particular product. The other one we've launched recently is called R2. This is a dietary supplement that has both a daytime and a nighttime component that is essentially designed to optimize energy levels in body chemistry, without having to consume stimulant to stay awake during the day, for example, which many of us have been forced to do. So these products are rolling out on a global basis, on this schedule that you see here.

And I know this is a little bit hard to read, but the light blue squares, we call pre-launches. So wherever you see a light blue square on this chart, this is when these particular products launch on a limited time only basis. So we will introduce them at a distributor convention typically on a limited time offer and then the blue squares represent when those products become available on a full-time basis. So the $150 million launch that we just had in Greater China and Southeast Asia is represented in those two squares right there, where we launched on an LTO basis both the Body Spa and R2 product and obviously very successfully.

So we published this chart, I think about two years ago to give the Street a perspective on product pipeline. And right now, we're essentially in the fourth inning of our inning chart, with the global rollout of the R2 product and the Body Galvanic product. Each of these introductions has been highly successful. The numbers in the far right column here represents 2011 sales. And so, about a third of our sales in 2011 were generated by ageLOC branded products. And this number of $100 million is obviously going to be much, much larger in 2013 as we're rolling out these products globally. But I wanted to note here primarily that the upcoming launches in 2013 are in the weight management category, where we will introduce an ageLOC weight management system.

So again, a genetic approached managing weight loss, targeting our skinny genes and dialing back genetic function to keep us trim like we were when we were young and making sure that we're providing optimal support to our

genetic structure in the weight management category.
In 2015, our launch is code named Alpha for the time being, but this launch will be our flagship dietary supplement product. This will be the kind of the core dietary supplement that everyone in the world should be taking. And so these are the two that we're working on, most closely right now. And I can tell you that both of them will be significantly larger than anything we've launched to-date.
The launch of ageLOC weight management is going to be huge in the fall of 2013 and similarly the launch of this product that we call ageLOC MOAS, the mother of all supplements, is also going to be very significant. So our pipeline is very robust and I can confidently tell you that, our ability to grow is not going to be limited by the ammunition that we're building in our product pipeline.
So let me just talk quickly about how we grow the business. There is really three ways that direct selling companies grow. We recruit more people, we retain at a higher rate or we improve the rate of productivity and that all leads to accelerated revenue growth. I want to touch on each of these things really quickly. You can see from this chart that over the last three years, we've enjoyed very good success in growing our active distributor base at a 6% CAGR and growing our executive distributor base at a 13% CAGR. The executive trend is the key indicator that's going to track closest to revenue. In fact, if you look at a four-year perspective here on revenue growth and executive growth, you can see that our revenue growth is going to trend very closely in line with our executive days.
So in terms of key indicators to look at, we would encourage you to look at executives in particular. One of the things that has significantly improved our ability to retain distributors is that, we now have over half of our business, half of our revenue that ships automatically on a monthly recurring basis.
We love this. People give us their credit card numbers, we ship them a monthly supply so that they never have to bother to even make a phone call or talk to their distributor, it just happens automatically. And as you can imagine transitioning from less than 20% subscription to now 56% subscription based revenue, that has been improved our productivity or our retention and has definitely positively impacted our overall results.
I wanted to highlight one another thing here and it has to do with the penetration rate during our global launches. So this chart reflects the percentage of distributors who participated in the introductory offer of the ageLOC Body Spa and the R2 product at our global distributor convention that we held in the fall of 2011.
And you can see the top performing markets the penetration rate was north of 14% and in China's case 28%, obviously a very high level of distributor participation.
Global average being 10%, so Hong Kong, Taiwan and the South Pacific region operating above the global average with these markets, Japan, the U.S., Europe, Middle East and Africa underperforming the other markets.
One of the reasons that we are very bullish about the product pipeline is that we are getting better at improving the penetration rate every time we do one of these launches. So our goal is to take this 10% penetration rate and improve it by several basis points, if not double it in 2013 and go even higher in subsequent launches.

The success that we show here in some regions is really a management issue. This is management it just is very good at aligning the sales force behind our current initiative, and making sure that they then are training their sales groups to maximize the penetration of these launches and the fact that we're getting better at the - and really focused on improving the results in the underachieving markets, because there's a great deal of optimism that our launches in 2013 and in 2015 will be even more successful.
We're also seeing tremendous growth in emerging markets. No secret here. Anyone who is following us knows that we're growing at a very rapid rate even in China, throughout South East Asia, Eastern Europe very strong, and really just getting started in Central and South America. We expect emerging markets as a percent of our sales to approach probably 50% of our sales by 2015.
Looking at Greater China specifically, the 18% CAGR here over a four-year period of time is really - really masks a little bit the phenomenal growth that we're experiencing in Mainland China where our growth is really more in the 40% to 50% range and just a lot of upside potential in the world's largest and very rapidly growing market.
Just one quick comment here and that is that the Street seems to be concerned about slowing macros in China, generally. And I can tell you, having been there two weeks ago, that you certainly have a sense that when you are on the ground, there is just a lot of energy and a lot of enthusiasm, a lot of growth still remaining in the market. I brought a little bit clip here of the distributor convention that I participated in, because I found myself sitting in this convention where we hosted 20,000 of our distributors from the Greater China region in Hong Kong, thinking to myself that it would be very, very uncomfortable for an investor who is pursuing a short strategy to witness what's going on in this market. So let me just give you a little taste here for what's going on.
[Video Presentation] (21:18-22:47)
That Chinese fellow - I don't even know what he said. I just liked the way he said it, so I wanted to just show that clip. But it's really reflective of the enthusiasm that we're feeling in the markets out there. And as you can tell from seeing that particular sales leader; there's a profile of a Nu Skin sales leader that's really not very reminiscent of, say, the typical Avon lady. These are very high octane sales people. He happens to be a former sales manager for IBM in Southern China, and he is a very, very successful Nu Skin sales leader now.
And the other market that's growing at a very robust rate is South Asia Pacific; Singapore, Malaysia, Thailand being the largest markets out in that region and just phenomenal success in the recent ageLOC, R2 and Body Spa launches. We'll be there in two weeks to host another convention similar to the one that you just saw featured in Hong Kong.
I'm going to talk a little bit our profitability improvements. You can see that we continue to make good progress on our operating margins. A lot of people are asking us, how high can it go? It can go higher. We've really targeted the 16% level in connection with our $4 EPS target and the factors that weigh on operating margin are primarily G&A leverage, as you see here on this slide. We have a very modest CapEx requirement in our business generally, so as the business ramps on the top line, there is definitely leverage on the bottom line and that comes particularly from just leveraging G&A.

EPS growth, very solid, 32% CAGR over the last six years, which we're very happy about and this all leads to very healthy financial metrics, very healthy cash flow from operations, again low levels of CapEx. We have a very healthy balance sheet. Our cash position continues to grow, and our debt level has continued to come down. This particular line chart here does not include the $100 million credit facility that we finalized during the second quarter here recently which we've recently put in place and borrowed in yen to create a little bit of a hedge from the financial perspective since about 25% of our revenue is yen-based.

We used that cash by repurchasing shares and this chart reflects the fact that we repurchased only about $66 million last year with an average of about $50 million. We're obviously going to be more aggressive in that this year as our stock price has contracted during the quarter. We have not yet announced to what extent we have been in the market but you'll see that when we release our Q2 results, we're far more active than what we've been - than what we were last year.

We also have a nice history of increasing our dividend. And as you can see over the past couple of years, as our business has continued to improve, we have escalated our dividend payout at a more aggressive rate and I think our track record here over the last 10 or 11 years will bode well for the notion that we will continue to increase our dividend rate going forward.

So there you have the profile of Nu Skin Enterprises, an incredible business and one that we're very excited about and frankly we view our stock prices broken right now because it bears little resemblance to our business results over the past little while and little resemblance to the business direction and what we see happening down the road.

We have 3 minutes if anyone has any questions you would like to ask.

Q&A

<A - M. Truman Hunt>: Yes. Ma'am.

<Q>: [Question Inaudible] (26:38-26:55)

<A - M. Truman Hunt>: Japan is about 25% of our business and it's been a tough market now for 15 years. The direct sales industry has contracted by about a third in Japan. It's really the only market in the world that I'm aware of where direct selling hasn't done well over the course of the last 15 years. We have suffered with the rest of the industry and - but have been making improvements. We see key indicators improving. We really felt like last year would be the year where we would stop the decline and be flat to slightly up by the fourth quarter. And in March of last year, as you know, the earthquake and tsunami really set the country back. And we felt at that time like it would set our recovery back about a year or two. So, you'll continue to see trend improvement in Japan in Q2, Q3 and hopefully by Q4 we'll be back to a year-over-year [ph] even (27:50).

<Q>: [Question Inaudible] (27:52-28:00)

<A - M. Truman Hunt>: For Latin America? Yeah. Latin America is a robust direct selling environment and with Brazil and Mexico both I think number

three and number six, in terms of market size for direct selling industry. But they also tend to be very retail-oriented markups or market where multilevel companies like us have had less success, even though many companies down there are now through transition to multilevel format. We actually opened at Brazil many years ago and ended up closing it after a few years of losing millions of dollars. And we're now in the process of reconstructing our Latin American business model. We simply cannot afford to import products into Brazil where they have really high duty rates, exorbitantly high duty rate, and then end up pricing our products at relevant price points. So, we're in the middle of investing quite a bit of effort in the Latin American strategy that will result in a model that is somewhere between where Natura and Avon are today, and where we are today. We're going to hit the middle of the market, and when we put out our $5 billion growth model a few years ago, which was our - our original target was 2020. We really felt like to hit $5 billion in sales, we needed to have about $1 billion contributed from Latin America; we no longer believe that. We think that we can hit $5 billion without our Latin American contribution but we do recognize that Latin America is a significant market. And so, you'll see us by about early to mid 2014 launching the new direct sales model in Latin America.

<Q>: [Question Inaudible] (29:55-30:01)

<A - M. Truman Hunt>: I'm sorry.

<Q>: [Question Inaudible] (30:02-30:07)

<A - M. Truman Hunt>: In the Latin American market?

<Q>: Yeah.

<A - M. Truman Hunt>: Yeah. So in Latin America, Natura, for example, is a pure single-level model. So Natura's sales person buys product at wholesale from Natura and then resell to their neighbor, keeps the retail markup, right? Avon, similarly, has operated in that fashion. But I can tell you that that none of those companies if they were starting their businesses today would operate in that fashion because that single-level model really is kind of yesterday's model that the future is really more to a higher octane business opportunity where sales person not only can make money by retailing products, but can also recruit and train and motivate their own sales team and make money on the sales volume that that team generates. That's the future and that's the model that we're developing for Latin America.

<Q>: [Question Inaudible] (31:05-31:13)

M. Truman Hunt:
Thank you, everyone.