

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):
April 21, 2020

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of incorporation)

001-35024
(Commission File No.)

87-0500306
(IRS Employer
Identification No.)

3838 West Parkway Boulevard
Salt Lake City, Utah 84120
(Address of principal executive offices, Zip Code)
Registrant's telephone number, including area code: (801) 954-7100

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 per value per share	USNA	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On April 21, 2020, USANA Health Sciences, Inc. (the “Company” or “USANA”) issued a press release announcing its financial results for the first quarter ended March 28, 2020. The release also announced that the Company will post a document titled “Management Commentary, Results and Outlook” on the Company’s website and that executives of the Company will hold a conference call with investors, to be broadcast over the World Wide Web and by telephone and provided access information, date and time for the conference call. The Company noted that the call will consist of brief remarks by the Company’s management team, before moving directly into questions and answers. A copy of the press release, and the Management Commentary, Results and Outlook, are furnished herewith as Exhibits to this Current Report on Form 8-K and are incorporated herein by reference. These documents will be posted on the Company’s corporate website, www.usana.com.

The information in this Current Report is being furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended. The furnishing of the information in this Current Report is not intended to, and does not, constitute a representation that such furnishing is required by Regulation FD or that the information this Current Report contains is material investor information that is not otherwise publicly available.

Item 7.01 Regulation FD Disclosure

The information disclosed above under Item 2.02, as well as the exhibits attached under Item 9.01 below are incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release issued by USANA Health Sciences, Inc. dated April 21, 2020 (furnished herewith).
99.2	Management Commentary, Results and Outlook provided by USANA Health Sciences, Inc. dated April 21, 2020 (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

USANA HEALTH SCIENCES, INC.

By: /s/ G. Douglas Hekking
G. Douglas Hekking, Chief Financial Officer

Date: April 21, 2020

Exhibit Index

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USANA Health Sciences Reports First Quarter Results

SALT LAKE CITY--(BUSINESS WIRE)--April 21, 2020--USANA Health Sciences, Inc. (NYSE: USNA) today announced financial results for its fiscal first quarter ended March 28, 2020.

Key Financial & Operating Highlights

- Global manufacturing and distribution remain fully operational.
- Continued consumer demand and a successful promotion combine to generate \$266.6 million in net sales during the quarter.
- Company is following guidelines from government and health officials, to keep employees safe, including a work-from-home strategy for most employees and additional safety precautions for manufacturing and distribution employees.
- Associates pivot to continue holding meetings and selling virtually/on-line.
- Updated 2020 outlook reflects impact of a stronger U.S. dollar and continued uncertainty surrounding COVID-19.

Q1 2020 Financial Performance

Consolidated Results		
Net Sales	\$266.6 million	<ul style="list-style-type: none"> • -2.3% vs. prior-year quarter • +0.1% constant currency vs. prior-year quarter • -\$6.6 million fx impact, or -2.4%
Diluted EPS	\$1.23	<ul style="list-style-type: none"> • +21.8% vs. prior-year quarter • Diluted shares of 21.6 million, -9.9%
Active Customers	573,000	<ul style="list-style-type: none"> • -2.2% vs. prior-year quarter
Cash & Cash Equivalents	\$194.1 million	

“During this unprecedented period, we extend our gratitude to medical personnel, health officials, government leaders and volunteers around the world who are working tirelessly to respond to the COVID-19 pandemic,” said Kevin Guest, Chief Executive Officer. “The health, wellness and safety of our employees, Associates and customers around the world remain our top priorities. Accordingly, we have modified our go-to-market strategies and operations in each of our markets to comply with guidelines from government and health officials. The most significant modifications we have made relate to positioning the majority of our employees to work from home and supporting our sales force to enhance their ability to run their businesses virtually through social media and conference calling platforms. Although these modifications, and COVID-19 in general, negatively impacted our business during the quarter, strong consumer demand for our high-quality, essential, health products and successful promotions helped us deliver operating results moderately ahead of our expectations.”

“Importantly, our manufacturing facilities in the U.S. and China remain fully operational to date, and we have experienced no meaningful disruptions to our world-wide supply chain. While we have always maintained high standards for safety and sanitation in manufacturing, we have raised those standards with additional measures — including body temperature monitoring, social distancing, and mandatory use of face masks — that are now recommended by government health agencies. Moreover, in certain markets we have temporarily closed product will-call centers and are instead offering curbside delivery and subsidized shipping to customers.”

Q1 2020 Regional Results:

Asia Pacific Region		
Net Sales	\$215.6 million	<ul style="list-style-type: none"> -2.4% vs. prior-year quarter Constant currency net sales: +0.5% -\$6.4 million fx impact, or -2.9% 80.9% of consolidated net sales
Active Customers	449,000	<ul style="list-style-type: none"> -2.2% vs. prior-year quarter
Asia Pacific Sub-Regions		
Greater China		
Net Sales	\$131.4 million	<ul style="list-style-type: none"> -8.8% vs. prior-year quarter Constant currency net sales: -6.3%
Active Customers	277,000	<ul style="list-style-type: none"> -8.9% vs. prior-year quarter -4.5% sequentially
North Asia		
Net Sales	\$27.3 million	<ul style="list-style-type: none"> +22.6% vs. prior-year quarter Constant currency net sales: +29.5%
Active Customers	57,000	<ul style="list-style-type: none"> +29.5% vs. prior-year quarter +1.8% sequentially
Southeast Asia Pacific		
Net Sales	\$56.9 million	<ul style="list-style-type: none"> +4.4% vs. prior-year quarter Constant currency net sales: +6.5%
Active Customers	115,000	<ul style="list-style-type: none"> +3.6% vs. prior-year quarter +1.8% sequentially

Americas and Europe Region		
Net Sales	\$51.0 million	<ul style="list-style-type: none"> -2.1% vs. prior-year quarter Constant currency net sales: -1.6% 19.1% of consolidated net sales
Active Customers	124,000	<ul style="list-style-type: none"> -2.4% vs. prior-year quarter -2.4% sequentially

Mr. Guest continued, “While many of our Associates have transitioned over the last several years to doing business online through social media, person-to-person and face-to-face selling is still an important part of our business and direct selling in general. Consequently, the social distancing and stay-at-home orders put in place across all of our markets began to affect our momentum and operating results late in the first quarter and are expected to continue to impact our results throughout the year. For instance, we chose to cancel several significant in-person Associate events and incentive trips during the first quarter and have either cancelled upcoming events or changed them to virtual events. The extent of the disruption to our business in each of our markets going forward is difficult to estimate and will depend on many factors, many of which are outside of our control. Importantly, however, we have responded to these challenges by supporting our Associates in operating their businesses virtually. I remain confident in the strength of USANA’s underlying business, the importance of our products for health and wellness, and the resilience and adaptability of our Associates. I also believe that USANA will emerge from these unprecedented times stronger than ever.”

Balance Sheet

During the quarter, the Company repurchased approximately 785,000 shares of common stock for a total of \$57 million. As of March 28, 2020, there was approximately \$73 million remaining under the current share repurchase authorization. The Company ended the quarter with \$194.1 million in cash and cash equivalents and no debt. While the Company expects to continue to fund its business with cash from operations, following the end of the first quarter, the Company drew \$60 million on its line of credit to ensure availability of additional liquidity under its credit facility. Additionally, to further enhance its financial flexibility, the Company has temporarily suspended its share repurchase program and is taking steps to align spending with sales performance and defer non-essential capital investments.

Doug Hekking, Chief Financial Officer, said, “Given the financial strength of our business, we are confident that we will be able to maintain adequate liquidity and flexibility to successfully navigate through the current crisis and pursue our strategic plans.”

Fiscal 2020 Outlook

The Company is updating its consolidated net sales and earnings per share outlook for fiscal year 2020. The Company’s updated guidance reflects the negative impact from a strengthening U.S. dollar as well as continued uncertainty surrounding the COVID-19 pandemic.

Fiscal Year 2020 Outlook		
	Revised Range	Previous Range
Consolidated Net Sales	\$1.00 - \$1.08 billion	\$1.03 - \$1.13 billion
Diluted EPS	\$4.00 - \$4.90	\$4.10 - \$4.90

“Net sales guidance has been adjusted to reflect an unfavorable shift in currency exchange rates by an estimated \$25 million, as well as an adjustment to reflect our current assessment of future sales,” added Mr. Hekking. “As a result of a lower effective tax rate (32.0%) and a lower diluted share count (21.1 million shares), diluted earnings per share changed modestly from previously issued guidance.”

Management Commentary Document and Conference Call

For more information on the Company’s operating results, please see the “Management Commentary, Results and Outlook” document, which has been posted on the Company’s website (<http://ir.usana.com>) under the “Investor Relations” section of the site. USANA will hold a conference call and webcast to discuss today’s announcement with investors on Wednesday, April 22, 2020 at 11:00 AM Eastern Time. **Investors may listen to the call by accessing USANA’s website at <http://ir.usana.com>.** The call will consist of brief opening remarks by the Company’s management team, before moving directly into questions and answers.

Non-GAAP Financial Measures

The Company prepares its financial statements using U.S. generally accepted accounting principles (“GAAP”). Constant currency net sales, earnings, EPS and other currency-related financial information (collectively, “Financial Results”) are non-GAAP financial measures that remove the impact of fluctuations in foreign-currency exchange rates (“fx”) and help facilitate period-to-period comparisons of the Company’s Financial Results that we believe provide investors an additional perspective on trends and underlying business results. Constant currency Financial Results are calculated by translating the current period’s Financial Results at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount to the prior-year period’s Financial Results.

Internal Investigation of China Operations

As the Company first disclosed in February 2017, it is voluntarily conducting an internal investigation of its China operations, BabyCare Ltd. The investigation focuses on compliance with the Foreign Corrupt Practices Act and certain conduct and policies at BabyCare, including BabyCare's expense reimbursement policies. The Audit Committee of the Company's Board of Directors has assumed direct responsibility for reviewing these matters and has hired experienced counsel to conduct the investigation. While the Company does not believe that the subject amounts are quantitatively material, or will materially affect its financial statements, it cannot currently predict the outcome of the investigation on its business, results of operations, or financial condition. The Company's internal investigation is substantially complete, however the Company continues to cooperate with the Securities and Exchange Commission and the United States Department of Justice. The Company cannot currently predict the duration, scope, or result of the investigation.

About USANA

USANA develops and manufactures high-quality nutritional supplements, healthy foods and personal care products that are sold directly to Associates and Preferred Customers throughout the United States, Canada, Australia, New Zealand, Hong Kong, China, Japan, Taiwan, South Korea, Singapore, Mexico, Malaysia, the Philippines, the Netherlands, the United Kingdom, Thailand, France, Belgium, Colombia, Indonesia, Germany, Spain, Romania, and Italy. More information on USANA can be found at www.usana.com.

Safe Harbor

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. Our actual results could differ materially from those projected in these forward-looking statements, which involve a number of risks and uncertainties, including: uncertainty related to the magnitude, scope and duration of the impact of the COVID-19 pandemic (“COVID-19”) to our business, operations and financial results; the further spread of, and regulatory measures or voluntary actions that may be put in place to limit the spread of, COVID-19 in the markets where we operate, including restrictions on business operations, shelter at home, or social distancing requirements; the potential for a resurgence of COVID-19 spread in any of our markets in the future; the impact of COVID-19 on the domestic and world economies, including any negative impact on discretionary spending, consumer demand, and consumer behavior in general; regulatory risk in China in connection with the health products and direct selling business models; regulatory risk in the United States in connection with the direct selling business model; potential negative effects of material breaches of our information technology systems to the extent we experience a material breach; material failures of our information technology systems; global economic conditions generally; reliance upon our network of independent Associates; risk associated with governmental regulation of our products, manufacturing and direct selling business model; adverse publicity risks globally; risks associated with our international expansion and operations; uncertainty relating to the fluctuation in U.S. and other international currencies; and risks associated with the internal investigation into BabyCare’s operations. The contents of this release should be considered in conjunction with the risk factors, warnings, and cautionary statements that are contained in our most recent filings with the Securities and Exchange Commission. The forward-looking statements in this press release set forth our beliefs as of the date hereof. We do not undertake any obligation to update any forward-looking statement after the date hereof or to conform such statements to actual results or changes in the Company’s expectations, except as required by law.

USANA Health Sciences, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Quarter Ended	
	28-Mar-20	30-Mar-19
Net sales	\$ 266,619	\$ 272,990
Cost of sales	46,059	45,901
Gross profit	220,560	227,089
Operating expenses		
Associate incentives	116,069	122,530
Selling, general and administrative	65,479	69,555
Earnings from operations	39,012	35,004
Other income (expense)	151	1,290
Earnings before income taxes	39,163	36,294
Income taxes	12,611	12,122
NET EARNINGS	<u>\$ 26,552</u>	<u>\$ 24,172</u>
Earnings per share - diluted	\$ 1.23	\$ 1.01
Weighted average shares outstanding - diluted	21,551	23,927

USANA Health Sciences, Inc.
Consolidated Balance Sheets
(In thousands)
(Unaudited)

	As of	As of
	28-Mar-20	28-Dec-19
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 194,098	\$ 234,830
Inventories	60,568	68,905
Prepaid expenses and other current assets	32,097	25,544
Total current assets	<u>286,763</u>	<u>329,279</u>
Property and equipment, net	97,246	95,233
Goodwill	16,493	16,636
Intangible assets, net	29,071	29,840
Deferred income taxes	2,756	3,090
Other assets	41,421	42,856
Total assets	<u>\$ 473,750</u>	<u>\$ 516,934</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 11,824	\$ 12,525
Other current liabilities	112,680	123,573
Total current liabilities	<u>124,504</u>	<u>136,098</u>
Deferred income taxes	13,730	10,282
Other long-term liabilities	17,908	18,842
Stockholders' equity	<u>317,608</u>	<u>351,712</u>
Total liabilities and stockholders' equity	<u>\$ 473,750</u>	<u>\$ 516,934</u>

USANA Health Sciences, Inc.
Sales by Region
(unaudited)
(in thousands)

	<u>Quarter Ended</u>						Currency impact on sales	% change excluding currency impact
	<u>28-Mar-20</u>		<u>30-Mar-19</u>					
Asia Pacific	\$		\$					
Greater China	131,432	49.3%	144,153	52.8%	\$ (12,721)	(8.8%)	\$ (3,708)	(6.3%)
Southeast Asia Pacific	56,922	21.4%	54,515	20.0%	2,407	4.4%	(1,126)	6.5%
North Asia	27,251	10.2%	22,228	8.1%	5,023	22.6%	(1,538)	29.5%
Asia Pacific Total	215,605	80.9%	220,896	80.9%	(5,291)	(2.4%)	(6,372)	0.5%
Americas and Europe	51,014	19.1%	52,094	19.1%	(1,080)	(2.1%)	(271)	(1.6%)
	\$		\$					
	<u>266,619</u>	<u>100.0%</u>	<u>272,990</u>	<u>100.0%</u>	<u>\$ (6,371)</u>	<u>(2.3%)</u>	<u>\$ (6,643)</u>	<u>0.1%</u>

Active Associates by Region⁽¹⁾
(unaudited)

	<u>As of</u>			
	<u>28-Mar-20</u>		<u>30-Mar-19</u>	
Asia Pacific				
Greater China	95,000	33.9%	109,000	36.9%
Southeast Asia Pacific	85,000	30.4%	90,000	30.5%
North Asia	38,000	13.6%	31,000	10.5%
Asia Pacific Total	<u>218,000</u>	<u>77.9%</u>	<u>230,000</u>	<u>77.9%</u>
Americas and Europe	<u>62,000</u>	<u>22.1%</u>	<u>65,000</u>	<u>22.1%</u>
	<u>280,000</u>	<u>100.0%</u>	<u>295,000</u>	<u>100.0%</u>

Active Preferred Customers by Region⁽²⁾
(unaudited)

	<u>As of</u>			
	<u>28-Mar-20</u>		<u>30-Mar-19</u>	
Asia Pacific				
Greater China	182,000	62.1%	195,000	67.0%
Southeast Asia Pacific	30,000	10.2%	21,000	7.2%
North Asia	19,000	6.5%	13,000	4.5%
Asia Pacific Total	<u>231,000</u>	<u>78.8%</u>	<u>229,000</u>	<u>78.7%</u>
Americas and Europe	<u>62,000</u>	<u>21.2%</u>	<u>62,000</u>	<u>21.3%</u>
	<u>293,000</u>	<u>100.0%</u>	<u>291,000</u>	<u>100.0%</u>

(1) Associates are independent distributors of our products who also purchase our products for their personal use. We only count as active those Associates who have purchased from us any time during the most recent three-month period, either for personal use or resale.

(2) Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. We only count as active those Preferred Customers who have purchased from us any time during the most recent three-month period. China utilizes a Preferred Customer program that has been implemented specifically for that market.

Contacts

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USANA Health Sciences, Inc.

April 21, 2020

Q1 2020 Management Commentary, Results and Outlook

- Global manufacturing and distribution remain fully operational.
- Continued consumer demand and a successful promotion combine to generate \$266.6 million in net sales during the quarter.
- Company is following guidelines from government and health officials, to keep employees safe, including a work-from-home strategy for most employees and additional safety precautions for manufacturing and distribution employees.
- Associates pivot to continue holding meetings and selling virtually/on-line.
- Updated 2020 outlook reflects impact of a stronger U.S. dollar and continued uncertainty surrounding COVID-19.

Overview

USANA's first quarter operating results were modestly better than internal expectations due to underlying consumer demand for our high-quality health products as well as a successful promotion offered during the quarter. During the quarter, we modified our business operations in each of our markets, in light of the COVID-19 pandemic, to ensure the health, wellness and safety of our employees, Associates and customers around the world. While these business modifications, and COVID-19 in general, negatively impacted our first quarter results, they did not do so until later in the quarter. Consequently, we expect the COVID-19 pandemic, and the world-wide efforts to slow its spread, to have a larger impact on our business in the second quarter and throughout the remainder of the year. Although this unprecedented environment has created challenges for our business, our team has responded with solutions and we remain committed to continuing to provide our customers with the high-quality health and wellness products they've come to trust. We are also committed to being socially responsible as a corporate leader in each of our markets and, to that end, will continue to do our part in staving off the spread of COVID-19. Before providing a review of the quarter, we will address several key items regarding our modified business operation, specifically: (i) our work-from-home strategy; (ii) the continuity of our manufacturing and distribution operations; (iii) the ability and willingness of our Associates to adapt to virtual meetings and sales activity; and (iv) our updated outlook.

During the first quarter, we successfully implemented a work-from-home plan for all non-manufacturing and non-distribution employees in each of our markets to comply with guidelines from government and health officials. While the majority of our management, administrative and office employees are employed at our facilities in Salt Lake City, Utah, and Beijing, China, our employees in each of our 24 markets have also done their part to work efficiently and productively from home.

Importantly, our manufacturing facilities in the U.S. and China remain fully operational to date and we have not experienced any meaningful disruption to our world-wide supply chain. Additionally, nutritional supplements and health foods have been designated critical/essential infrastructure in the U.S. and, as such, we have continued to actively manufacture and distribute our products in our markets around the world. While our manufacturing and distribution employees continue to work on site, they are following additional health and safety guidelines. While we have always maintained high standards for safety and sanitation in manufacturing, we have raised those standards with additional measures — including body temperature monitoring, social distancing, and mandatory use of face masks — that are now recommended by government health agencies. Moreover, in virtually all of our markets, we have temporarily closed product will-call centers and are instead offering curbside delivery and subsidized shipping to customers.

While many of our Associates have transitioned over the last several years to doing business online through social media, person-to-person and face-to-face selling is still an important part of our business and direct selling in general. Consequently, as a result of the social distancing and stay-at-home orders put in place across all of our markets, our Associates have also been required to modify their business practices to allow them to conduct the entirety of their business virtually. Our employee sales teams in each market, including executives, general managers and sales employees, have also made themselves available day and night to assist our Associates in their efforts. Our information technology team has also stepped up to support our Associates, including by making conference calling platforms available, extending the capacity of those platforms, providing additional support on our back-office systems and applications, and otherwise.

Although our entire team of employees and Associates have stepped up to provide solutions to these challenges, the social distancing, shelter-at-home and other efforts to reduce the spread of COVID-19 began to affect our momentum and operating results late in the first quarter. For instance, we chose to cancel several significant in-person Associate events and incentive trips during the first quarter and have either cancelled upcoming events or changed them to virtual events. Consequently, we expect the COVID-19 pandemic to further impact our results in the second quarter and continue to do so throughout the remainder of the year. The extent of the disruption to our business in each of our markets going forward is difficult to estimate and will depend on many factors, many of which are outside of our control. We will, however, actively continue working to safeguard against additional disruptions to our business, particularly through strategic efforts to sure up (i) raw material procurement; (ii) manufacturing; (iii) distribution; (iv) selling; (v) operating cash flows and liquidity; (vi) Associate engagement and activity; and (vii) employee support and engagement.

Our initial outlook for fiscal 2020 reflected a wider than typical range for top- and bottom-line performance given our lack of visibility at the time into a number of factors, including the outbreak of COVID-19 in Mainland China, the extension of the Chinese New Year in China as a result of the outbreak, and other factors. At that time, we did not fully appreciate the magnitude of COVID-19, including (i) that it would become a pandemic and rapidly spread to each of our markets outside of Mainland China, (ii) the health and economic consequences related to its world-wide spread, and (iii) the related health and economic measures that would be required around the world to reduce its spread and severity. Consequently, we now expect the COVID-19 pandemic, and the measures that are being taken to combat it, to have a more meaningful impact on our global operating results for fiscal 2020.

Additionally, changes in foreign currency exchange rates, specifically the strengthening of the U.S. dollar, were more significant than originally projected in our initial guidance for fiscal 2020. Based on forecasted exchange rates at that time, we anticipated only a modest impact from currency for fiscal 2020. As measured from our initial financial guidance, we now expect an unfavorable foreign currency impact on net sales of approximately \$25 million for the year. In addition to negatively influencing net sales, a stronger U.S. dollar also compresses operating margin performance through lower relative gross margin and higher relative selling, general and administrative expense. As a result, we are also updating our outlook to reflect our estimate of currency exchange rates, continued uncertainty surrounding the COVID-19 pandemic, and efforts to manage spending in line with expected sales performance. We remain committed to providing transparency on our business and will provide updates as the year progresses.

As we keep a long-term perspective, we remain confident in the strength of USANA’s business, the importance of our products for health and wellness, and the resilience and adaptability of our Associates. We are pleased to offer world-class health products to our customers at a time when so many are focused on improving their overall health and fully believe USANA’s business will emerge from these unprecedented times stronger than it was before.

Q1 2020 Results

Consolidated Results		
Net Sales	\$266.6 million	<ul style="list-style-type: none"> • -2.3% vs. prior-year quarter • +0.1% constant currency vs. prior-year quarter • -\$6.6 million fx impact, or -2.4%
Diluted EPS	\$1.23	<ul style="list-style-type: none"> • +21.8% vs. prior-year quarter • Diluted shares of 21.6 million, -9.9%
Active Customers	573,000	<ul style="list-style-type: none"> • -2.2% vs. prior-year quarter
Cash & Equivalents	\$194.1 million	

Balance Sheet

During the quarter, the Company repurchased approximately 785,000 shares of common stock for a total of \$57 million. As of March 28, 2020, there was approximately \$73 million remaining under the current share repurchase authorization. The Company ended the quarter with \$194.1 million in cash and cash equivalents and no debt. While the Company expects to continue to fund its business with cash from operations, following the end of the first quarter, the Company drew \$60 million on its line of credit to ensure availability of additional liquidity under its credit facility. Additionally, to further enhance its financial flexibility in the short-term, the Company has temporarily suspended its share repurchase program and is taking steps to align spending with sales performance and defer non-essential capital investments.

Quarterly Income Statement Discussion

Gross margins decreased 50 basis points from the prior year to 82.7% of net sales. This decrease can primarily be attributed to: (i) favorable benefits due to recognition of capitalized inventory variances in the first quarter of 2019, and (ii) higher net production conversion costs in the current year quarter.

Associate Incentives decreased 140 basis points from the prior year to 43.5% of net sales. The decrease in Associate Incentives can primarily be attributed to price adjustments as well as lower relative sales in markets where Associate incentives run at a higher rate compared to other markets.

Selling, General and Administrative Expense decreased \$4.1 million compared to the prior year. In relative terms, SG&A expense decreased 90 basis points from the prior year to 24.6% of net sales, due to (i) lower advertising costs, and (ii) decreased event costs.

The effective tax rate improved to 32.2% compared to 33.4% in the prior year quarter. This improvement is due primarily to increased earnings before income taxes in the U.S. allowing for greater foreign tax credit utilization.

Inventory decreased to \$60.6 million, compared to \$68.9 million at 2019 year end The decrease in inventory is primarily due to efforts undertaken by management in fiscal 2019 to improve global inventory management. Inventory is anticipated to increase meaningfully in the second quarter as the operations group focuses on strategically building safety stock of nutritional supplements.

Regional Financial Results

Asia Pacific Region		
Net Sales	\$215.6 million	<ul style="list-style-type: none"> -2.4% vs. prior-year quarter Constant currency net sales: +0.5% 80.9% of consolidated net sales -\$6.4 million fx impact, or -2.9%
Active Customers	449,000	<ul style="list-style-type: none"> -2.2% vs. prior-year quarter
Asia Pacific Sub-Regions		
Greater China		
Net Sales	\$131.4 million	<ul style="list-style-type: none"> -8.8% vs. prior-year quarter Constant currency net sales: -6.3%
Active Customers	277,000	<ul style="list-style-type: none"> -8.9% vs. prior-year quarter -4.5% sequentially
North Asia		
Net Sales	\$27.3 million	<ul style="list-style-type: none"> +22.6% vs. prior-year quarter Constant currency net sales: +29.5%
Active Customers	57,000	<ul style="list-style-type: none"> +29.5% vs. prior-year quarter +1.8% sequentially
Southeast Asia Pacific		
Net Sales	\$56.9 million	<ul style="list-style-type: none"> +4.4% vs. prior-year quarter Constant currency net sales: +6.5%
Active Customers	115,000	<ul style="list-style-type: none"> +3.6% vs. prior-year quarter +1.8% sequentially

Greater China: Mainland China experienced the largest impact from COVID-19 during the quarter. Notably, following an extended Chinese New Year, our manufacturing facility remained operational while our office employees continued to work remotely. The majority of our employees have now returned to the office. Although COVID-19 created a challenging operating environment, a successful promotion in Mainland China contributed an estimated \$11 million to net sales in the current year quarter.

North Asia: Growth in this region continues to be driven by Korea, where Active customers grew by 31.0% and where local currency net sales increased by 31.2% year-over-year.

Southeast Asia Pacific: Malaysia and Indonesia were the primary growth contributors with local currency sales increasing 40.5% and 43.5%, respectively.

Americas and Europe Region		
Net Sales	\$51.0 million	<ul style="list-style-type: none">• -2.1% vs. prior-year quarter• Constant currency net sales: -1.6%• 19.1% of consolidated net sales
Active Customers	124,000	<ul style="list-style-type: none">• -2.4% vs. prior-year quarter• -2.4% sequentially

Americas and Europe Region: Q1 2020 Net Sales of \$51.0 million, 19.1% of Consolidated Net Sales

The decrease in net sales in the Americas and Europe region is due largely to a decline in Active Customers and sales in Mexico.

Outlook and 2020 Operating Strategy

The Company is updating its consolidated net sales and earnings per share outlook for fiscal year 2020.

Fiscal Year 2020 Outlook		
	Revised Range	Previous Range
Consolidated Net Sales	\$1.00 - \$1.08 billion	\$1.03 - \$1.13 billion
Diluted EPS	\$4.00 - \$4.90	\$4.10 - \$4.90

The Company's updated outlook for the year reflects:

- A wider than typical range for top- and bottom-line performance given continued uncertainty surrounding the COVID-19 pandemic;
- An unfavorable currency exchange rate impact on net sales of approximately \$25 million from previously issued guidance;
- An estimated operating margin of between 12.5% and 14.0%;
- An effective tax rate of 32.0%;
- An annualized diluted share count of 21.1 million;
- A sequentially softer second quarter, followed by a stronger back-half of 2020;
- Fiscal 2020 is a 53-week year and includes one additional week of sales compared to fiscal 2019. Prior to fiscal 2020, the last 53-week year was in fiscal 2014. The Company estimates this additional week will contribute about 1.8% to net sales growth.

During these unprecedented times, we remain focused on what we can control. Our priorities remain the health and safety of our employees and customers, preserving financial flexibility, maintaining discipline, and serving communities where possible. We will continue to operate with a long-term mindset in order to best position ourselves for the future.

Kevin Guest
CEO

Douglas Hekking
CFO

Safe Harbor

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. Our actual results could differ materially from those projected in these forward-looking statements, which involve a number of risks and uncertainties, including: uncertainty related to the magnitude, scope and duration of the impact of the COVID-19 pandemic ("COVID-19") to our business, operations and financial results; the further spread of, and regulatory measures or voluntary actions that may be put in place to limit the spread of, COVID-19 in the markets where we operate, including restrictions on business operations, shelter at home, or social distancing requirements; the potential for a resurgence of COVID-19 spread in any of our markets in the future; the impact of COVID-19 on the domestic and world economies, including any negative impact on discretionary spending, consumer demand, and consumer behavior in general; regulatory risk in China in connection with the health products and direct selling business models; regulatory risk in the United States in connection with the direct selling business model; potential negative effects of material breaches of our information technology systems to the extent we experience a material breach; material failures of our information technology systems; global economic conditions generally; reliance upon our network of independent Associates; risk associated with governmental regulation of our products, manufacturing and direct selling business model; adverse publicity risks globally; risks associated with our international expansion and operations; uncertainty relating to the fluctuation in U.S. and other international currencies; and risks associated with the internal investigation into BabyCare's operations. The contents of this release should be considered in conjunction with the risk factors, warnings, and cautionary statements that are contained in our most recent filings with the Securities and Exchange Commission. The forward-looking statements in this press release set forth our beliefs as of the date hereof. We do not undertake any obligation to update any forward-looking statement after the date hereof or to conform such statements to actual results or changes in the Company's expectations, except as required by law.

Non-GAAP Financial Measures

The Company prepares its financial statements using U.S. generally accepted accounting principles (“GAAP”). Constant currency net sales, earnings, EPS and other currency-related financial information (collectively, “Financial Results”) are non-GAAP financial measures that remove the impact of fluctuations in foreign-currency exchange rates and help facilitate period-to-period comparisons of the Company’s Financial Results that we believe provide investors an additional perspective on trends and underlying business results. Constant currency Financial Results are calculated by translating the current period’s Financial Results at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount to the prior-year period’s Financial Results.

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