

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):
February 7, 2023

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 par 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 February 7, 2023, USANA Health Sciences, Inc. (the “Company” or “USANA”) issued a press release announcing its financial results for the fourth quarter ended December 31, 2022. The release also announced that the Company will post a document titled “Management Commentary” 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, 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 February 7, 2023 (furnished herewith).
99.2	Management Commentary provided by USANA Health Sciences, Inc. dated February 7, 2023 (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: February 7, 2023

Exhibit Index

Exhibit No.	Description
<u>99.1</u>	<u>Press release issued by USANA Health Sciences, Inc. dated February 7, 2023 (furnished herewith).</u>
<u>99.2</u>	<u>Management Commentary provided by USANA Health Sciences, Inc. dated February 7, 2023 (furnished herewith).</u>

USANA Health Sciences Reports Fourth Quarter and Fiscal Year 2022 Results

SALT LAKE CITY--(BUSINESS WIRE)--February 7, 2023--USANA Health Sciences, Inc. (NYSE: USNA) today announced financial results for its fiscal fourth quarter and full year ended December 31, 2022.

Key Financial & Operating Results

- Fourth quarter net sales were \$228 million versus \$267 million during the prior-year period.
- Fourth quarter diluted EPS was \$0.66 as compared with \$1.03 during Q4 2021.
- Fiscal year 2022 net sales were \$999 million as compared with \$1,186 million during fiscal year 2021.
- Fiscal year 2022 diluted EPS totaled \$3.59 versus \$5.73 during fiscal year 2021.
- Fiscal year 2022 operating cash flow totaled \$104 million.
- Company reiterates fiscal year 2023 net sales and diluted EPS outlook of \$850 million to \$950 million and \$2.35 to \$3.30, respectively.

Fiscal Year 2022 Financial Performance

Consolidated Results		
Net Sales	\$999 million	<ul style="list-style-type: none"> • -16% vs. prior year • -12% constant currency vs. prior year • -\$50 million YOY FX impact, or -4%
Diluted EPS	\$3.59	<ul style="list-style-type: none"> • -37% vs. prior year • Diluted shares of 19.3 million, -5% year-over-year
Active Customers	490,000	<ul style="list-style-type: none"> • -13% vs. prior year

“Our fourth quarter and full year results were largely in line with our preliminary results announced on January 5, 2023,” said Kevin Guest, Chief Executive Officer and Chairman of the Board. “During the fourth quarter, total Active Customer counts stabilized in several key markets and increased 3% sequentially. In addition, sales and customer activity in mainland China increased during the final two weeks of the year following the Chinese government’s unanticipated shift in COVID policy. This increase in sales and customer activity was due largely to increased demand for several of our health products in China.”

“While 2022 presented a challenging operating environment for both USANA and our industry, we remained focused on executing our long-term growth strategy. In 2022, we made progress in several areas that position USANA for future growth. These areas include digital commerce initiatives to support our business, new market expansion, the launch of our Affiliate program in select markets, and the completion of two acquisitions. These activities further our efforts to differentiate and diversify our business while contributing to shareholder returns.”

Q4 2022 Financial Performance

Consolidated Results		
Net Sales	\$228 million	<ul style="list-style-type: none"> • -15% vs. prior-year quarter • -7% constant currency vs. prior-year quarter • -\$21 million YOY FX impact, or -8% • Flat sequentially in constant currency
Diluted EPS	\$0.66	<ul style="list-style-type: none"> • -36% vs. prior-year quarter • -15% sequentially • Diluted shares of 19.3 million, -2% year-over-year
Active Customers	490,000	<ul style="list-style-type: none"> • -13% vs. prior-year quarter • +3% sequentially

Q4 2022 Regional Results:

Asia Pacific Region		
Net Sales	\$183 million	<ul style="list-style-type: none"> • -14% vs. prior-year quarter • -4% constant currency vs. prior-year quarter • +3% constant currency sequentially • 80% of consolidated net sales
Active Customers	384,000	<ul style="list-style-type: none"> • -10% vs. prior-year quarter • +6% sequentially
Asia Pacific Sub-Regions		
Greater China		
Net Sales	\$118 million	<ul style="list-style-type: none"> • -6% vs. prior-year quarter • +4% constant currency vs. prior-year quarter
Active Customers	244,000	<ul style="list-style-type: none"> • -4% vs. prior-year quarter • +15% sequentially
North Asia		
Net Sales	\$25 million	<ul style="list-style-type: none"> • -16% vs. prior-year quarter • -3% constant currency vs. prior-year quarter
Active Customers	53,000	<ul style="list-style-type: none"> • -9% vs. prior-year quarter • -2% sequentially
Southeast Asia Pacific		
Net Sales	\$41 million	<ul style="list-style-type: none"> • -29% vs. prior-year quarter • -22% constant currency vs. prior-year quarter
Active Customers	87,000	<ul style="list-style-type: none"> • -24% vs. prior-year quarter • -8% sequentially
Americas and Europe Region		
Net Sales	\$45 million	<ul style="list-style-type: none"> • -19% vs. prior-year quarter • -18% constant currency vs. prior-year quarter • -11% constant currency sequentially • 20% of consolidated net sales
Active Customers	106,000	<ul style="list-style-type: none"> • -20% vs. prior-year quarter • -5 % sequentially

Balance Sheet and Share Repurchase Activity

The Company generated \$104 million of operating cash flow during fiscal 2022, ended the year with \$288 million in cash and cash equivalents, and remained debt-free. The Company did not repurchase shares during the quarter and, as of December 31, 2022, had approximately \$83 million remaining under the current share repurchase authorization. For the full year, the Company repurchased 288 thousand shares for a total investment of \$25.4 million.

Fiscal Year 2023 Outlook

Mr. Guest added, “Our strategies during 2023 are focused on increasing the number of Active Customers in our business. These efforts include a return to live sales meetings and events where possible, new market expansion, new incentive opportunities for our salesforce, and pursuing additional acquisition opportunities. Additionally, we continue to execute our long-term strategy with a focus on digital commerce, product development, and improvements to ensure the best overall customer experience.”

The Company is reiterating its net sales and earnings per share outlook for fiscal year 2023 provided on January 5, 2023, as follows:

Fiscal Year 2023 Outlook	
	Range
Consolidated Net Sales	\$850 - \$950 million
Diluted EPS	\$2.35 - \$3.30

“While we have seen increased sales activity and customer demand in China for certain of our health products following that country’s change in COVID policy, it remains difficult to forecast the duration of the market response as well as the subsequent normalized level of business in this key market during fiscal 2023. Therefore, we are reiterating our full-year outlook which incorporates wider-than-typical ranges for net sales and diluted EPS,” said Doug Hekking, Chief Financial Officer.

“Moreover, we are entering fiscal year 2023 with an Active Customer base that is 13% lower than it was at the beginning of 2022. Our customer growth efforts are focused on generating sequential quarter customer growth from this base. Also of note: we continue to experience increased costs due to inflationary pressures, and we project increased spending related to several growth initiatives plus a return to in-person sales events and incentive trips.”

Management Commentary Document and Conference Call

For further information on the USANA's operating results, please see the Management Commentary document, which has been posted on the Company's website (<http://ir.usana.com>) under the Investor Relations section. USANA's management team will hold a conference call and webcast to discuss today's announcement with investors on Wednesday, February 8, 2023 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, followed by a questions and answers session.

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.

About USANA

USANA develops and manufactures high-quality nutritional supplements, functional 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 COVID-19 pandemic (“COVID-19”) to our business, operations and financial results; 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 deteriorating foreign and/or trade relations between the United States and China; compliance with data privacy and security laws and regulations in our markets around the world; potential negative effects from geopolitical relations and conflicts, including the Russia-Ukraine conflict; 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, including increasing inflationary pressure around the world and any negative impact on our operating costs, consumer demand and consumer behavior in general; 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; and uncertainty relating to the fluctuation in U.S. and other international currencies. 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		Twelve Months Ended	
	31-Dec-22	1-Jan-22	31-Dec-22	1-Jan-22
Net sales	\$ 227,960	\$267,299	\$ 998,601	\$ 1,186,464
Cost of sales	46,430	52,518	193,890	217,898
Gross profit	181,530	214,781	804,711	968,566
Operating expenses:				
Associate incentives	97,879	114,687	434,793	519,267
Selling, general and administrative	61,100	68,589	262,304	279,107
Earnings from operations	22,551	31,505	107,614	170,192
Other income (expense), net	251	141	1,007	450
Earnings before income taxes	22,802	31,646	108,621	170,642
Income taxes	10,007	11,326	39,271	54,137
NET EARNINGS	\$ 12,795	\$ 20,320	\$ 69,350	\$ 116,505

Earnings per share - diluted	\$ 0.66	\$ 1.03	\$ 3.59	\$ 5.73
Weighted average shares outstanding - diluted	19,263	19,673	19,310	20,343

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

	As of		As of	
	31-Dec-22	1-Jan-22	31-Dec-22	1-Jan-22
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 288,420	\$239,832		
Inventories	67,089	98,318		
Prepaid expenses and other current assets	28,873	26,967		
Total current assets	384,382	365,117		
Property and equipment, net	97,773	101,780		
Goodwill	17,368	17,668		
Intangible assets, net	32,432	30,442		
Deferred tax assets	9,799	4,839		
Other assets	54,795	57,894		
Total assets	\$ 596,549	\$577,740		
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	\$ 11,049	\$ 13,508		
Other current liabilities	132,784	147,282		
Total current liabilities	143,833	160,790		
Deferred tax liabilities	4,071	7,497		
Other long-term liabilities	14,173	14,329		
Stockholders' equity	434,472	395,124		
Total liabilities and stockholders' equity	\$ 596,549	\$577,740		

USANA Health Sciences, Inc.

Sales by Region

(In thousands)

(Unaudited)

	<u>Quarter Ended</u>				<u>% change</u>				
	<u>December 31, 2022</u>		<u>January 1, 2022</u>		<u>Change from prior year</u>		<u>Currency excluding impact on currency sales</u>		<u>impact</u>
Asia Pacific									
Greater China	\$ 118,290	51.9%	\$125,840	47.1%	\$ (7,550)	(6.0%)	\$ (12,161)		3.7%
Southeast Asia Pacific	40,598	17.8%	56,984	21.3%	(16,386)	(28.8%)	(4,088)		(21.6%)
North Asia	24,543	10.8%	29,249	10.9%	(4,706)	(16.1%)	(3,725)		(3.4%)
Asia Pacific Total	183,431	80.5%	212,073	79.3%	(28,642)	(13.5%)	(19,974)		(4.1%)
Americas and Europe	44,529	19.5%	55,226	20.7%	(10,697)	(19.4%)	(1,002)		(17.6%)
	<u>\$ 227,960</u>	<u>100.0%</u>	<u>\$267,299</u>	<u>100.0%</u>	<u>\$ (39,339)</u>	<u>(14.7%)</u>	<u>\$ (20,976)</u>		<u>(6.9%)</u>

Active Associates by Region⁽¹⁾

(Unaudited)

	<u>As of</u>			
	<u>December 31, 2022</u>		<u>January 1, 2022</u>	
Asia Pacific				
Greater China	74,000	34.1%	81,000	31.9%
Southeast Asia Pacific	62,000	28.6%	78,000	30.7%
North Asia	34,000	15.6%	37,000	14.6%
Asia Pacific Total	170,000	78.3%	196,000	77.2%
Americas and Europe	47,000	21.7%	58,000	22.8%
	<u>217,000</u>	<u>100.0%</u>	<u>254,000</u>	<u>100.0%</u>

Active Preferred Customers by Region⁽²⁾

(Unaudited)

	<u>As of</u>			
	<u>December 31, 2022</u>		<u>January 1, 2022</u>	
Asia Pacific				
Greater China	170,000	62.3%	174,000	56.8%
Southeast Asia Pacific	25,000	9.1%	37,000	12.1%
North Asia	19,000	7.0%	21,000	6.9%
Asia Pacific Total	214,000	78.4%	232,000	75.8%
Americas and Europe	59,000	21.6%	74,000	24.2%
	<u>273,000</u>	<u>100.0%</u>	<u>306,000</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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 (801) 954-7280



USANA Health Sciences, Inc.

February 7, 2023

*Q4 2022 Management Commentary***Key Financial & Operating Results**

- Fourth quarter net sales were \$228 million versus \$267 million during the prior-year period.
- Fourth quarter diluted EPS was \$0.66 as compared with \$1.03 during Q4 2021.
- Fiscal year 2022 net sales were \$999 million as compared with \$1,186 million during fiscal year 2021.
- Fiscal year 2022 diluted EPS totaled \$3.59 versus \$5.73 during fiscal year 2021.
- Fiscal year 2022 operating cash flow totaled \$104 million.
- Company reiterates fiscal year 2023 net sales and diluted EPS outlook of \$850 million to \$950 million and \$2.35 to \$3.30, respectively.

Overview

USANA delivered fourth quarter and fiscal year 2022 results largely in line with our preliminary results announced on January 5, 2023. Active Customer counts stabilized in several key markets during the fourth quarter and increased 3% sequentially. Additionally, sales and customer activity in mainland China increased during the final two weeks of the year following the Chinese government's unanticipated shift in COVID policy. This increase in sales and customer activity was due largely to increased demand for certain of our immune support health products.

2022 presented a challenging operating environment for both USANA and our industry. Global inflationary pressure continued to negatively impact our materials and supply chain costs and had varying levels of impact on our customers' purchasing behavior across several of our key markets, particularly in Southeast Asia Pacific. Although improving, our ability to conduct business in person remained constrained in some key markets. Notwithstanding these challenges, we made progress in several strategic areas that position USANA for future growth. These areas include digital commerce initiatives to support our business, new market expansion, the launch of our Affiliate program in select markets, and the completion of two acquisitions.

Fiscal Year 2022 Financial Performance

Consolidated Results		
Net Sales	\$999 million	<ul style="list-style-type: none">-16% vs. prior year-12% constant currency vs. prior year-\$50 million YOY FX impact, or -4%
Diluted EPS	\$3.59	<ul style="list-style-type: none">-37% vs. prior yearDiluted shares of 19.3 million, -5% year-over-year
Active Customers	490,000	<ul style="list-style-type: none">-13% vs. prior year

Q4 2022 Financial Performance

Consolidated Results		
Net Sales	\$228 million	<ul style="list-style-type: none">-15% vs. prior-year quarter-7% constant currency vs. prior-year quarter-\$21 million YOY FX impact, or -8%Flat sequentially in constant currency
Diluted EPS	\$0.66	<ul style="list-style-type: none">-36% vs. prior-year quarter-15% sequentiallyDiluted shares of 19.3 million, -2% year-over-year
Active Customers	490,000	<ul style="list-style-type: none">-13% vs. prior-year quarter+3% sequentially

Quarterly Income Statement Discussion

Gross margin decreased 80 basis points from the prior year to 79.6% of net sales. The decrease can be attributed to the negative impact of currency exchange rates, the continued year-over-year increase in material and wage costs, the loss of leverage on fixed-period costs due to lower net sales, and higher costs related to inventory valuation adjustments. Favorable changes in geographic sales mix partly offset these cost pressures.

Associate Incentives were flat from the prior year at 42.9% of net sales reflecting lower incentive and promotional expenses due to a lower level of promotional activity during the current-year quarter.

Selling, General and Administrative expenses increased 110 basis points from the prior year to 26.8% as a percentage of net sales. The relative increase is largely due to a loss of leverage resulting from lower year-over-year net sales. On an absolute basis, SG&A expenses decreased \$7.5 million compared to the prior year, reflecting certain marketing expenses in the prior-year quarter which did not recur this year and lower employee costs.

The effective tax rate increased to 43.9% from the 35.8% reported in the prior-year, largely due to the annual true up of income taxes that were influenced by the geographic mix of taxable income as well as unanticipated discrete adjustments incurred during the fourth quarter. The change in tax rate impacted full-year diluted EPS by approximately \$0.06.

Q4 2022 Regional Financial Results

Asia Pacific Region		
Net Sales	\$183 million	<ul style="list-style-type: none"> •-14% vs. prior-year quarter •-4% constant currency vs. prior-year quarter •+3% constant currency sequentially •80% of consolidated net sales
Active Customers	384,000	<ul style="list-style-type: none"> •-10% vs. prior-year quarter •+6% sequentially

Asia Pacific Sub-Regions		
Greater China		
Net Sales	\$118 million	<ul style="list-style-type: none"> •-6% vs. prior-year quarter •+4% constant currency vs. prior-year quarter
Active Customers	244,000	<ul style="list-style-type: none"> •-4% vs. prior-year quarter •+15% sequentially

North Asia		
Net Sales	\$25 million	<ul style="list-style-type: none"> •-16% vs. prior-year quarter •-3% constant currency vs. prior-year quarter
Active Customers	53,000	<ul style="list-style-type: none"> •-9% vs. prior-year quarter •-2% sequentially
Southeast Asia Pacific		
Net Sales	\$41 million	<ul style="list-style-type: none"> •-29% vs. prior-year quarter •-22% constant currency vs. prior-year quarter
Active Customers	87,000	<ul style="list-style-type: none"> •-24% vs. prior-year quarter •-8% sequentially

Greater China: Net sales in mainland China decreased 4% year-over-year while local currency sales increased 6%. Active Customers in this key market declined 3% year-over-year. Ongoing COVID-related disruptions and lockdowns negatively impacted our business during the majority of the quarter. Sequentially, net sales and local currency sales in mainland China increased 10% and 14%, respectively, while Active Customers grew 16%, largely due to increased demand for certain of our immune support health products following the government's meaningful change in COVID policy.

North Asia: Net sales and local currency sales in South Korea decreased 16% and 3% year-over-year, respectively, largely due to lower Active Customer counts and lower levels of promotional activity compared to the prior-year quarter. On a sequential basis, net sales and local currency sales declined 5% and 3%, respectively, due, in part, to the decrease in promotional activity compared to the third quarter of 2022.

Southeast Asia Pacific: Key markets in this sub-region continued to be negatively impacted by inflationary pressure and a slowdown in local economies, both of which continue to weigh on the purchasing behavior of our customers. Additionally, certain markets in this region have historically represented a higher mix of in-person sales, which have been negatively impacted throughout the pandemic. Consequently, net sales and local currency sales in Malaysia decreased 33% and 27% year-over-year, respectively, while Active Customers declined 32%. Sequentially, net sales and local currency sales declined 15% and 13%, respectively. Year-over-year net sales and local currency sales in the Philippines declined 35% and 26%, respectively, while Active Customers declined 23%. On a sequential basis, net sales declined 25% in the Philippines.

Americas and Europe Region

Net Sales	\$45 million	<ul style="list-style-type: none">•-19% vs. prior-year quarter•-18% constant currency vs. prior-year quarter•-11% constant currency sequentially•20% of consolidated net sales
Active Customers	106,000	<ul style="list-style-type: none">•-20% vs. prior-year quarter•-5 % sequentially

Americas and Europe Region: Net sales in the United States declined 22%, largely due to lower Active Customer counts, inflationary pressure, and lower promotional activity compared to prior-year period. Sequentially, Active Customers and net sales in the United States declined 10% and 16%, respectively, as the third quarter of 2022 included sales contribution from our 30th Anniversary Convention. Net sales and local currency sales in Canada declined 22% and 17% year-over-year, respectively. On a sequential basis, net sales in our Canadian market declined 3% but increased 1% in local currency.

Balance Sheet and Share Repurchase Activity

We generated \$104 million of operating cash flow during fiscal 2022, ended the year with \$288 million in cash and cash equivalents, and remained debt-free. We did not repurchase shares during the quarter and, as of December 31, 2022, we had approximately \$83 million remaining under the current share repurchase authorization. For the full year, we repurchased 288 thousand shares for a total investment of \$25.4 million.

Fiscal Year 2023 Outlook

We are reiterating our consolidated net sales and earnings per share outlook for fiscal year 2023 as follows:

Fiscal Year 2023 Outlook	
	Range
Consolidated Net Sales	\$850 - \$950 million
Diluted EPS	\$2.35 - \$3.30

Our fiscal year 2023 outlook for the year reflects:

- An unfavorable currency exchange rate impact on net sales of approximately \$30 million
- An operating margin in the range of 8% to 10%
- An annual effective tax rate of approximately 36%
- An annualized diluted share count of 19.2 million

Our outlook anticipates a wider-than-typical range of financial performance largely due to continued uncertainty surrounding the impact of the change in COVID policy in mainland China as well as the economic and operating environment in many of our markets during fiscal 2023.

We anticipate continued pressure on our operating margin year-over-year, primarily due to the loss of leverage on lower year-over-year net sales. In addition, we continue to experience inflationary pressure, although at a moderated level, compared to the prior year, across several areas of our business including materials, wages, and distribution costs. We are also planning for increased travel and event-related costs as we gradually return to more live events. Several cost and margin management efforts have been incorporated into our plans to alleviate these collective cost pressures, highlighted by enhanced inventory management, employment cost initiatives, and price adjustments.

Our annual effective tax rate is anticipated at 36% which is higher than historic levels. This increase is primarily related to the geographic mix of taxable income as well as generally softer sales on a year-over-year basis.

2023 Operating Strategy

We enter fiscal year 2023 with an Active Customers base that is 13% lower compared to the beginning of 2022. Consequently, our strategies during 2023 are centrally focused on increasing the number of Active Customers in our business. These efforts include a return to live sales meetings and events where possible, new market expansion, new incentive opportunities for our salesforce, and pursuing additional acquisition opportunities. Additionally, we continue to execute our long-term strategy with a focus on digital commerce, product development, and improvements to ensure the best overall customer experience.

Return to Live Sales Meetings and Events

In-person events have historically been a catalyst to customer engagement and a catalyst to positive momentum in USANA's business. As we enter 2023, we plan to host more live sales meetings and events, along with management training and coaching for our salesforce, in markets where permitted. We have two live events planned in the first half of the year in North Asia and Greater China, with in-person attendance for each event expected to be strong, particularly given the absence of these events over the past several years.

New Market Expansion

We currently operate in 24 markets globally and over the past year we have accelerated our market expansion readiness. We are focused on markets that will contribute to an increased number of Active Customers who are consuming our products on a regular basis, are familiar with and supportive of the direct selling model, provide diversification to our existing sales portfolio, and an opportunity to generate attractive financial return on investment.

New Incentive Opportunities for our Salesforce

In place of the larger short-term sales promotions that we have offered during the last several years, we plan to focus on smaller market or region-specific promotions staggered throughout the year that are designed to drive long-term sustainable results. We will also begin hosting in-person sales incentive trips again, where we will recognize and reward our top performing sales leaders. These trips have been absent the last two years, and our salesforce is looking forward to these opportunities. Lastly, we recently launched a new Affiliate program in select markets that offers an alternative and new sales incentive opportunity for sellers, customers, and social influencers. While this program is new and will take some time to contribute meaningfully, it represents a strategic new component of our overall incentive offering that is simple and straightforward. We believe this program will be successful in generating sales and customer growth over time.

Pursuing Additional Acquisition Opportunities

We continue to evaluate business development opportunities that are additive to the long-term success of USANA. Our focus remains on opportunities that strengthen, diversify, and grow our worldwide business by focusing on: (i) overall health and wellness; (ii) vertical integration; (iii) product and category expansion; (iv) channel expansion; and (v) expanding our core competencies. In 2023, we also plan to grow the two companies we acquired in 2022.

Digital Commerce Initiatives

We plan to continue to expand and enhance the digital capabilities we implemented last year, by further improving our onboarding program and training tools for our Associates, as these two capabilities are foundational to driving more efficient customer acquisition and retention. Our digital team will also collaborate with our sales leaders and continuously evaluate customer feedback to ensure we are providing the best possible customer experience with our recently launched Affiliate program.

In closing, we remain confident in our strategies and believe the successful execution of these initiatives will position us to expand and grow our business globally.

Kevin Guest
CEO

Douglas Hekking
CFO

Safe Harbor

This Management Commentary 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 COVID-19 pandemic (“COVID-19”) to our business, operations and financial results; 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 deteriorating foreign and/or trade relations between the United States and China; compliance with data privacy and security laws and regulations in our markets around the world; potential negative effects from geopolitical relations and conflicts, including the Russia-Ukraine conflict; 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, including increasing inflationary pressure around the world and any negative impact on our operating costs, consumer demand and consumer behavior in general; 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; and uncertainty relating to the fluctuation in U.S. and other international currencies. The contents of this Management Commentary 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 Management Commentary 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 (“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.

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