

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):
July 25, 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 July 25, 2023, USANA Health Sciences, Inc. (the “Company” or “USANA”) issued a press release announcing its financial results for the second quarter ended July 1, 2023. 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

Exhibit No.	Description
99.1	Press release issued by USANA Health Sciences, Inc. dated July 25, 2023 (furnished herewith).
99.2	Management Commentary provided by USANA Health Sciences, Inc. dated July 25, 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: July 25, 2023

Exhibit Index

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<u>99.1</u>	<u>Press release issued by USANA Health Sciences, Inc. dated July 25, 2023 (furnished herewith).</u>
<u>99.2</u>	<u>Management Commentary provided by USANA Health Sciences, Inc. dated July 25, 2023 (furnished herewith).</u>

USANA Health Sciences Reports Second Quarter Net Sales of \$238 Million and Diluted EPS of \$0.89

SALT LAKE CITY--(BUSINESS WIRE)--July 25, 2023--USANA Health Sciences, Inc. (NYSE: USNA) today announced financial results for its fiscal second quarter ended July 1, 2023.

Key Financial & Operating Results

- Second quarter net sales were \$238 million versus \$264 million during the second quarter of 2022.
- Second quarter diluted EPS was \$0.89 as compared with \$1.00 during the second quarter of 2022.
- Fiscal 2023 net sales and diluted EPS guidance updated to \$900 to \$950 million and \$2.65 to \$3.30, respectively, from \$875 million to \$950 million and \$2.40 to \$3.30.

Q2 2023 Financial Performance

Consolidated Results		
Net Sales	\$238 million	<ul style="list-style-type: none"> • -10% vs. Q2 2022 • -6% constant currency vs. Q2 2022 • -\$10 million YOY FX impact, or -4% • -4% sequentially • -2% constant currency sequentially
Diluted EPS	\$0.89	<ul style="list-style-type: none"> • -11% vs. Q2 2022 • -6% sequentially • Diluted shares of 19.4 million
Active Customers	487,000	<ul style="list-style-type: none"> • -13% vs. Q2 2022 • -1% sequentially

“USANA’s second quarter results were modestly ahead of internal expectations, highlighted by sequential improvement in mainland China and continued progress on several key strategic initiatives,” said Jim Brown, President and Chief Executive Officer.

“Net sales in the second quarter declined 4% sequentially when compared to the first quarter of 2023. Net sales in the first quarter benefitted from increased demand for several of our health products in China following the government’s shift in COVID policy. In addition, the announcement of product price increases in several markets stimulated purchasing ahead of those increases. Collectively, these two events contributed an estimated \$25 million to top line results in the first quarter of 2023.

“Our leadership team continued to emphasize in-person engagement with our Associate leaders through live events and meetings across several of our key markets. Notably, during the second quarter, we held both our Asia Pacific Convention in South Korea and our national sales meeting in China. Both of these events generated strong attendance and enthusiasm. At these events we also announced USANA’s plans to open our 25th global market, India, where our team is diligently working to commence operations in late 2023. Although we anticipate that it will take time to build our business in this new market, we are confident that India will contribute to the long-term growth of USANA over the coming years.”

Q2 2023 Regional Results:

Asia Pacific Region		
Net Sales	\$194 million	<ul style="list-style-type: none"> -11% vs. Q2 2022 -7% constant currency vs. Q2 2022 -3% sequentially -1% constant currency sequentially 81% of consolidated net sales
Active Customers	384,000	<ul style="list-style-type: none"> -12% vs. Q2 2022 -1% sequentially

Asia Pacific Sub-Regions		
Greater China		
Net Sales	\$129 million	<ul style="list-style-type: none"> -9% vs. Q2 2022 -4% constant currency vs. Q2 2022 +4% sequentially +6% constant currency sequentially
Active Customers	251,000	<ul style="list-style-type: none"> -10% vs. Q2 2022 +4% sequentially
North Asia		
Net Sales	\$26 million	<ul style="list-style-type: none"> -11% vs. Q2 2022 -7% constant currency vs. Q2 2022 -14% sequentially -11% constant currency sequentially
Active Customers	51,000	<ul style="list-style-type: none"> -11% vs. Q2 2022 -6% sequentially
Southeast Asia Pacific		
Net Sales	\$39 million	<ul style="list-style-type: none"> -18% vs. Q2 2022 -14% constant currency vs. Q2 2022 -15% sequentially -13% constant currency sequentially
Active Customers	82,000	<ul style="list-style-type: none"> -20% vs. Q2 2022 -9% sequentially

Americas and Europe Region		
Net Sales	\$44 million	<ul style="list-style-type: none"> -5% vs. Q2 2022 -5% constant currency vs. Q2 2022 -8% sequentially -9% constant currency sequentially 19% of consolidated net sales
Active Customers	103,000	<ul style="list-style-type: none"> -15% vs. Q2 2022 -2% sequentially

“Our strategic focus remains squarely on increasing the number of Active Customers. In addition to the emphasis on in-person meetings and events, our efforts include new market expansion, incentive opportunities for our salesforce, the ongoing pursuit of accretive acquisition opportunities, and expanding our digital commerce capabilities,” continued Mr. Brown. “We remain optimistic that the successful execution of our strategies will position USANA for a return to long-term growth.”

Fiscal Year 2023 Outlook

The Company is raising the lower end of its net sales and earnings per share outlook for fiscal year 2023 as follows:

Fiscal Year 2023 Outlook		
	Revised Range	Previous Range
Consolidated Net Sales	\$900 - \$950 million	\$875 - \$950 million
Diluted EPS	\$2.65 - \$3.30	\$2.40 - \$3.30

“A large global promotion was offered in the second quarter of 2022, which did not reoccur in 2023 and created a difficult year-over-year comparison for the current year quarter. Operating results in the second quarter of 2023, however, were modestly ahead of internal expectations due, in part, to a strong response to a local sales promotion offered in mainland China,” said Doug Hekking, Chief Financial Officer.

“Although the first half of this year benefitted from certain discrete sales activity not expected to recur in the back half of the year, our year-to-date results coupled with planned initiatives for the remainder of the year provide us confidence to raise the bottom-end of our full year guidance. We will continue investing in strategies designed to deliver sustainable long-term growth while managing costs in line with forecasted sales levels.”

Balance Sheet and Share Repurchase Activity

The Company generated \$10 million of operating cash flow during the second quarter and ended the quarter with \$300 million in cash and cash equivalents while remaining debt-free. The Company did not repurchase shares during the quarter and, as of July 1, 2023, had approximately \$83 million remaining under the current share repurchase authorization.

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, July 26, 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 (“U.S. GAAP” or “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		Six Months Ended	
	1-Jul-23	2-Jul-22	1-Jul-23	2-Jul-22
Net sales	\$ 238,202	\$ 264,474	\$ 486,562	\$ 537,341
Cost of sales	43,326	49,517	91,845	100,900
Gross profit	194,876	214,957	394,717	436,441
Operating expenses:				
Associate incentives	102,380	119,204	208,450	238,824
Selling, general and administrative	68,096	66,387	135,022	135,184
Earnings from operations	24,400	29,366	51,245	62,433
Other income (expense), net	2,410	(58)	4,066	162
Earnings before income taxes	26,810	29,308	55,311	62,595
Income taxes	9,518	10,151	19,636	20,969
NET EARNINGS	\$ 17,292	\$ 19,157	\$ 35,675	\$ 41,626

Earnings per share - diluted	\$ 0.89	\$ 1.00	\$ 1.84	\$ 2.15
Weighted average shares outstanding - diluted	19,427	19,244	19,377	19,362

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

	As of	As of
	1-Jul-23	31-Dec-22
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 300,183	\$ 288,420
Inventories	61,962	67,089
Prepaid expenses and other current assets	25,501	28,873
Total current assets	387,646	384,382
Property and equipment, net	95,736	97,773
Goodwill	16,859	17,368
Intangible assets, net	29,997	32,432
Deferred tax assets	15,914	9,799
Other assets*	56,528	54,795
Total assets	\$ 602,680	\$ 596,549
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 9,273	\$ 11,049
Other current liabilities	104,566	132,784
Total current liabilities	113,839	143,833
Deferred tax liabilities	4,796	4,071
Other long-term liabilities	15,221	14,173
Stockholders' equity	468,824	434,472
Total liabilities and stockholders' equity	\$ 602,680	\$ 596,549

*Includes noncurrent inventories of \$4,390 and \$3,479 as of 1-Jul-23 and 31-Dec-22, respectively. Total inventories were \$66,352 and \$70,568 as of 1-Jul-23 and 31-Dec-22, respectively.

USANA Health Sciences, Inc.

Sales by Region

(In thousands)

(Unaudited)

	<u>Quarter Ended</u>							
	<u>July 1, 2023</u>		<u>July 2, 2022</u>		<u>Change from prior year</u>		<u>% change Currency excluding impact on currency sales</u>	
Asia Pacific								
Greater China	\$ 128,749	54.1%	\$ 140,775	53.2%	\$ (12,026)	(8.5%)	\$ (6,948)	(3.6%)
Southeast Asia Pacific	39,337	16.5%	47,830	18.1%	(8,493)	(17.8%)	(1,573)	(14.5%)
North Asia	25,529	10.7%	28,803	10.9%	(3,274)	(11.4%)	(1,140)	(7.4%)
Asia Pacific Total	<u>193,615</u>	<u>81.3%</u>	<u>217,408</u>	<u>82.2%</u>	<u>(23,793)</u>	<u>(10.9%)</u>	<u>(9,661)</u>	<u>(6.5%)</u>
Americas and Europe	44,587	18.7%	47,066	17.8%	(2,479)	(5.3%)	94	(5.5%)
	<u>\$ 238,202</u>	<u>100.0%</u>	<u>\$ 264,474</u>	<u>100.0%</u>	<u>\$ (26,272)</u>	<u>(9.9%)</u>	<u>\$ (9,567)</u>	<u>(6.3%)</u>

Active Associates by Region⁽¹⁾

(Unaudited)

	<u>As of</u>			
	<u>July 1, 2023</u>		<u>July 2, 2022</u>	
Asia Pacific				
Greater China	71,000	34.1%	77,000	32.9%
Southeast Asia Pacific	57,000	27.4%	69,000	29.5%
North Asia	33,000	15.9%	36,000	15.4%
Asia Pacific Total	<u>161,000</u>	<u>77.4%</u>	<u>182,000</u>	<u>77.8%</u>
Americas and Europe	47,000	22.6%	52,000	22.2%
	<u>208,000</u>	<u>100.0%</u>	<u>234,000</u>	<u>100.0%</u>

Active Preferred Customers by Region⁽²⁾

(Unaudited)

	<u>As of</u>			
	<u>July 1, 2023</u>		<u>July 2, 2022</u>	
Asia Pacific				
Greater China	180,000	64.5%	201,000	61.8%
Southeast Asia Pacific	25,000	9.0%	34,000	10.5%
North Asia	18,000	6.4%	21,000	6.5%
Asia Pacific Total	<u>223,000</u>	<u>79.9%</u>	<u>256,000</u>	<u>78.8%</u>
Americas and Europe	56,000	20.1%	69,000	21.2%
	<u>279,000</u>	<u>100.0%</u>	<u>325,000</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.

Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products.

(2) 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

Investor contact:
 Andrew Masuda
 Investor Relations
 (801) 954-7201
 investor.relations@usanainc.com

Media contact:
 Dan Macuga
 Public Relations
 (801) 954-7280



USANA Health Sciences, Inc.

July 25, 2023

Q2 2023 Management Commentary

Key Financial & Operating Results

- Second quarter net sales were \$238 million versus \$264 million during the second quarter of 2022.
- Second quarter diluted EPS was \$0.89 as compared with \$1.00 during the second quarter of 2022.
- Fiscal 2023 net sales and diluted EPS guidance updated to \$900 to \$950 million and \$2.65 to \$3.30, respectively, from \$875 million to \$950 million and \$2.40 to \$3.30.

Overview

Our second quarter operating results modestly exceeded internal expectations and demonstrated further stabilization in USANA's business. We made progress on several key strategic initiatives during the quarter and are raising the bottom-end of our full year guidance.

Sales activity in the second quarter was highlighted by continued improvement in our largest market, mainland China, which posted 10% sequential local currency sales growth. This market continues to reopen and overall sentiment and activity amongst our Associates and customers is improving, despite a challenging economic environment. We offered a promotion in this market during the quarter that generated both higher net sales and Active Customers than initially expected. In other key markets, inflationary pressure and other economic challenges continued to weigh on consumer purchasing decisions. Despite overall improving sentiment and engagement levels amongst our Associates, inflation remains a headwind to generating meaningful sales momentum.

We offered a large global promotion in the second quarter of 2022, which did not reoccur in 2023 and created a difficult year-over-year comparison for the current year quarter. Net sales in the second quarter of 2023 declined 4% sequentially when compared to the first quarter of 2023. As we reported a few months ago, sales in the first quarter benefitted from increased demand for several of our health products in China following the government's shift in COVID policy. In addition, the announcement of product price increases in several markets stimulated purchasing ahead of those increases. Collectively, these two events contributed an estimated \$25 million to top line results in the first quarter. Note that these events, along with the promotion in China during the current-year second quarter, are not expected to be matched by activities of comparable magnitude in the second half of 2023.

Returning to in-person activities remains a key area of focus this year and our sales leaders and leadership team remained active in this regard during the second quarter. For example, we held our in-person Asia Pacific Convention in South Korea for the first time in three years. Attendance was strong and while such events haven't historically provided an instantaneous catalyst for sales activity, they are valuable in terms of collaboration, training, and networking amongst our leadership team and sales leaders and provide the foundation for building positive momentum going forward.

During the quarter, our team also continued to promote our Affiliate program, which provides a new, compelling and simple opportunity for individuals to earn by sharing USANA products. We believe this program is an exciting long-term opportunity to complement our traditional direct selling business. Our leadership team will continue to monitor this program so we can make any necessary modifications to enhance its success.

During the quarter we announced plans to expand to our 25th global market, India. This marks USANA's first market expansion since 2018 and comes after several years of diligent preparation. We are excited to offer our world class health and wellness products to a new country with its vast cultures and demographics. We plan to formally commence operations in late 2023 and, therefore, anticipate that sales from this new market will be modest during the remainder of the year. Although it will take time to develop and grow this important market over the next several years, we are confident that our products and business model are ideally suited for India and believe in our team's ability to develop and carefully grow this market.

In the third quarter of 2023, we plan to host our Americas & Europe convention in Salt Lake City, which is another meaningful in-person event and gathering to drive momentum and excitement in this region. Our promotional strategy will also remain focused on smaller, market-specific offerings spread throughout the remainder of 2023. Overall, we are pleased with the progress made during the first half of the year and remain optimistic that the successful execution of our strategic initiatives will position USANA to deliver sustainable long-term growth.

Q2 2023 Financial Performance

Consolidated Results		
Net Sales	\$238 million	<ul style="list-style-type: none"> • -10% vs. Q2 2022 • -6% constant currency vs. Q2 2022 • -\$10 million YOY FX impact, or -4% • -4% sequentially • -2% constant currency sequentially
Diluted EPS	\$0.89	<ul style="list-style-type: none"> • -11% vs. Q2 2022 • -6% sequentially • Diluted shares of 19.4 million
Active Customers	487,000	<ul style="list-style-type: none"> • -13% vs. Q2 2022 • -1% sequentially

Balance Sheet and Share Repurchase Activity

We ended the second quarter with \$300 million in cash and cash equivalents, remained debt-free, and generated \$10 million in operating cash flow during the period.

Inventories as of July 1, 2023, were \$66 million, which includes \$4 million of inventory categorized as noncurrent, a reduction of \$2 million (or 3%) from the first quarter of 2023 and \$18 million lower (or 21%) than the second quarter of 2022. We believe that our in-house manufacturing capabilities provide us with better control of inventory levels and help to mitigate supply chain risks while providing a meaningful contribution to delivering an excellent customer experience.

We did not repurchase shares during the quarter and, as of July 1, 2023, had approximately \$83 million remaining under the current share repurchase authorization.

Quarterly Income Statement Discussion

Gross margin increased 50 basis points from the prior year to 81.8% of net sales. The increase can be attributed to production efficiencies in China, reductions in year-over-year discount product promotions and product price increases, partially offset by geographic sales mix, increased material costs and the loss of leverage on fixed-period costs due to lower net sales.

Associate Incentives decreased 210 basis points from the prior year to 43.0% of net sales. The decrease reflects lower incentive and promotional expenses due to a significant promotion offered in the second quarter of the prior year that was not present in the second quarter of 2023.

Selling, General and Administrative expenses increased 350 basis points from the prior year to 28.6% as a percentage of net sales. The relative increase is largely due to a loss of leverage on lower year-over-year net sales as well as holding two significant sales meetings during the quarter of the current year. On an absolute basis, SG&A expenses increased \$1.7 million compared to the second quarter of 2022 due to these event-related costs.

The effective tax rate increased to 35.5% from the 34.6% reported in the second quarter of 2022, largely due to the mix of taxable income by market.

Q2 2023 Regional Results

Asia Pacific Region		
Net Sales	\$194 million	<ul style="list-style-type: none">• -11% vs. Q2 2022• -7% constant currency vs. Q2 2022• -3% sequentially• -1% constant currency sequentially• 81% of consolidated net sales
Active Customers	384,000	<ul style="list-style-type: none">• -12% vs. Q2 2022• -1% sequentially

Asia Pacific Sub-Regions		
Greater China		
Net Sales	\$129 million	<ul style="list-style-type: none"> • -9% vs. Q2 2022 • -4% constant currency vs. Q2 2022 • +4% sequentially • +6% constant currency sequentially
Active Customers	251,000	<ul style="list-style-type: none"> • -10% vs. Q2 2022 • +4% sequentially
North Asia		
Net Sales	\$26 million	<ul style="list-style-type: none"> • -11% vs. Q2 2022 • -7% constant currency vs. Q2 2022 • -14% sequentially • -11% constant currency sequentially
Active Customers	51,000	<ul style="list-style-type: none"> • -11% vs. Q2 2022 • -6% sequentially
Southeast Asia Pacific		
Net Sales	\$39 million	<ul style="list-style-type: none"> • -18% vs. Q2 2022 • -14% constant currency vs. Q2 2022 • -15% sequentially • -13% constant currency sequentially
Active Customers	82,000	<ul style="list-style-type: none"> • -20% vs. Q2 2022 • -9% sequentially

Greater China: The year-over-year declines in sales and Active Customers are representative of lower promotional activity compared to the second quarter of 2022. Net sales and local currency sales in mainland China declined 8% and 3% on a year-over-year basis, respectively, while Active Customers declined 9% on a year-over-year basis. Net sales were also unfavorably impacted by unfavorable currency exchange rates in this region. Sequentially, performance was driven by our mainland China market, which grew net sales 7% on a reported basis and 10% in local currency. Active Customers increased 5% quarter-over-quarter. The sequential progress in our China market was driven by a stronger than anticipated response to a promotion offered during the second quarter as well as the continued reopening of the country.

North Asia: Net sales and local currency sales in South Korea declined 12% and 8% year-over-year, respectively, and Active Customers declined 11%, due to lower promotional activity when compared to the prior-year quarter. On a sequential basis, net sales and local currency sales declined 14% and 11%, respectively, while Active Customers declined 6%. The increase in purchasing ahead of price increases in the first quarter was a contributing factor to the sequential decline.

Southeast Asia Pacific: Similar to other markets in Asia Pacific, year-over-year declines reflect lower promotional activity compared to the second quarter of 2022. As such, net sales and local currency sales in the Philippines declined 16% and 12% year-over-year, respectively, while Active Customers were 29% lower. In Malaysia, local currency sales and Active Customers declined 16% and 24% year-over-year, respectively. The sequential-quarter operating performance largely reflects declines due to the increase in purchasing ahead of price increases in the first quarter. Net sales and local currency sales in the Philippines declined 3% and 2% sequentially, respectively, while Active Customers declined 12%. In Malaysia, local currency sales and Active Customers declined 20% and 10% sequentially, respectively.

Americas and Europe Region		
Net Sales	\$44 million	<ul style="list-style-type: none"> • -5% vs. Q2 2022 • -5% constant currency vs. Q2 2022 • -8% sequentially • -9% constant currency sequentially • 19% of consolidated net sales
Active Customers	103,000	<ul style="list-style-type: none"> • -15% vs. Q2 2022 • -2% sequentially

Americas and Europe Region: The year-over-year decline in both net sales and Active Customers in this region largely reflects lower promotional activity in the quarter when compared to the second quarter of 2022. As such, net sales and local currency sales in Canada decreased 15% and 10% from the prior year, respectively, while Active Customers declined 18%. Net sales in the United States declined 9% and Active Customers fell 15% on a year-over-year basis. Sequential performance in these markets was negatively impacted by the increase in purchasing ahead of price increases announced in the first quarter.

Fiscal Year 2023 Outlook

The Company is updating its net sales and earnings per share outlook for fiscal year 2023 as follows:

Fiscal Year 2023 Outlook		
	Revised Range	Previous Range
Consolidated Net Sales	\$900 - \$950 million	\$875 - \$950 million
Diluted EPS	\$2.65 - \$3.30	\$2.40 - \$3.30

Our revised outlook for the year reflects:

- An operating margin in the range of 8.5% to 10.0% (previously between 8% and 10%)
- An annual effective tax rate of approximately 36% (unchanged)
- An annualized diluted share count of 19.3 million (previously 19.2 million)
- An unfavorable currency exchange rate impact on net sales of approximately \$23 million (previously \$3 million)

Our year-to-date results, combined with planned initiatives for the second half of the year, provide us with the confidence to raise the bottom-end of our full year guidance. We remain aware of the ongoing inflationary pressures and the resulting impact on consumer spending. Our guidance assumes these macroeconomic pressures will persist in the second half of the year, which could hold back sales momentum in some of our key markets. Our robust, debt-free balance sheet continues to provide us with the flexibility to invest in strategies designed to drive long-term growth and create value for our stakeholders.

In closing, we are encouraged by our first half operating performance and look forward to further executing on our 2023 strategies, which include a focus on engaging with our customers through the continued offering of live sales meetings and events where possible, new market expansion, new incentive opportunities for our salesforce, pursuing additional acquisition opportunities, and expanding our digital commerce capabilities.

Jim Brown
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 (“U.S. GAAP” or “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.

Investor contact:

Andrew Masuda
Investor Relations
(801) 954-7210
investor.relations@usanainc.com

Media contact:

Dan Macuga
Public Relations
801-954-7280