



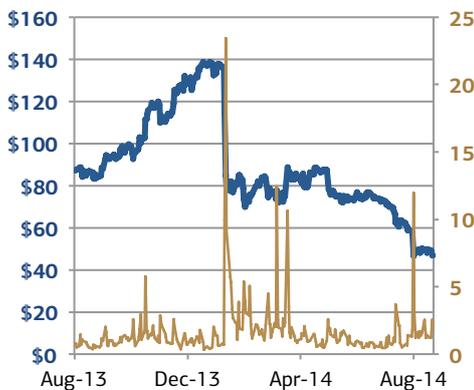
August 28, 2014

China | Direct Sales

Nu Skin Enterprises (NUS US)

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Nu Skin Enterprises (NUS US) one-year share price in USD (blue) and volume (gold, in mln shares)



Source: Bloomberg, August 28, 2014

Nu Skin Enterprises (NUS US)

Price	USD 46.7
Rating	NOT RATED
Price target	—
Difference	—
Market Cap	USD 2.8 bln
Simple Moving Avg.	1.6 mln
P/E	7.79x

Source: Bloomberg, August 28, 2014

Dead as a doornail

+ Shuttered factories

We confirmed that the large factory that Nu Skin rents from Dexin company in Shanghai has been shuttered for at least two months. Nu Skin's own small facility, two dilapidated buildings in a half-abandoned industrial park, has at most 20 people on premises to handle shipping from the associated warehouse.

+ Stores say they only sell online

Nu Skin's two stores in Shanghai are not accepting distributors and claim to make sales only online or from limited store inventory. The wall displays of top salespeople and their downlines, which are traditional features of every Nu Skin store, have been removed.

+ Empty new headquarters

The satellite-style headquarters facility is open for visits from sales executives around the country. But the facility appears almost entirely empty and stands 30 km from downtown Shanghai, with no public transportation links, such that it would be difficult to utilize fully. The HQ contains no manufacturing or store space.

+ Valuation: NOT RATED

We have ended our formal coverage of Nu Skin and no longer maintain a target price, as we lack the ability to cover the ex-China business.

Giving up?

Recent checks on Nu Skin operations in its China headquarters, Shanghai, revealed a company that seems close to simply throwing in the towel in China. With manufacturing operations completely halted, Nu Skin also seems to have dismantled the direct sales system, at least in Shanghai. Store employees said that they are not registering sales executives and that orders may only be placed online and products delivered to the buyer's home. Employees would speak only about bulk discounts but no commissions on sales from downline distributors. In fact, they denied that any sales are made by individual agents.

Store employees say there is no tiered selling.



Photos of sales executives have been removed from the wall in Nu Skin's Pudong store. All photos by J Capital | August 26.



Nu Skin rents its larger facility in the Pudong district of Shanghai from a company called Dexin. The facility has been idle for at least two months.



Nu Skin owns two dilapidated buildings in an industrial park in Shanghai that is about 70% empty. There are still some workers on premises and some warehousing of goods.



Nu Skin's new headquarters building is complete but nearly empty. The complex lies about 30 km from downtown Shanghai and is not close to any public transportation. It appears to be used for training.





Sales executives arriving at the headquarters complex for training.

As what appears to be a cash crisis unfolds in China, other aspects of Nu Skin's financial statements are coming under scrutiny.

New debt

The recent quarterly statement indicates that Nu Skin has USD 219 mln in cash at hand. And yet the company borrowed USD 50 mln for less than six months in Japan and Korea. The disclosure is as follows:

In July 2014, the Company's subsidiary in Japan borrowed 3 billion Japanese yen (approximately \$30.0 million), which is due on September 30, 2014. In July 2014, the Company's subsidiary in South Korea borrowed \$20.0 million, which is due in December 2014, with a right to extend the term for an additional six months.

Over the half year since December 31, 2013, Nu Skin's cash is down from USD 525 mln to USD 219 mln, mostly because, they said, they paid out accrued trip and bonus expenses from the bumper year in 2013.

Venezuelan currency disclosure

Also in Q2, the company recognized USD 25 mln of a USD 46 mln currency charge resulting from the devaluation of the Venezuelan currency.

Nu Skin is experiencing a cash crisis and has recently borrowed USD 50 mln.

Venezuela's currency devaluation has been a complex matter, with the greatly overvalued currency dropping sharply but now subject to a three-tier system. Furthermore, companies may repatriate only a small portion of their profits. Consequently, many companies have taken write-downs on cash and inventories in-country. The inventory write-downs, generally speaking, have amounted to around one-third of the value of the goods. We question whether Nu Skin's inventories in Venezuela are genuinely large enough to merit USD 25 mln in one quarter.

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