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USANA HEALTH SCIENCES INC. *Salt Lake City, Utah*

Healthy Dose Of Marketing Keys Growth Here

BY AMY REEVES
INVESTOR'S BUSINESS DAILY

Are you getting your vitamins?

A lot of people think they are – especially if they get the recommended daily allowance (RDA) the government pitches.

But Scott Van Winkle says that's not enough.

"RDAs were established years ago, when we had things like war rations," said Van Winkle, an analyst with Adams, Harkness & Hill. "It was a minimum level to keep you from getting scurvy. But research tells you you should take multiples of what the RDA tells you."

So Van Winkle takes pills made by USANA Health Sciences Inc. The firm's Health Pak hits him with 10 times the RDA of vitamins A and E, and almost 20 times the RDA level of vitamin C.

This is nutrition with attitude.

USANA's been selling its megapills for 11 years, and they remain the firm's top product. It also sells a line of weight-control products called LEAN Lifelong as well as personal care products under the Sensé label.

The products cost more than supplements you'd get at a grocery store or outlet owned by Wal-Mart Stores Inc. But USANA Chief Financial Officer Gil Fuller says you get more bang for your buck.

"It has significantly greater amounts of certain ingredients than your typical $10 product in a retail store," he said. "If you look at ingredients, we compete very favorably."

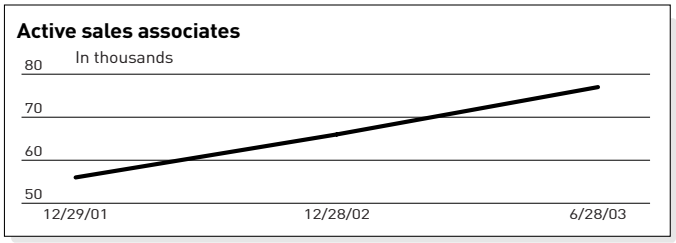
The trouble is, a shopper who's just scanning the shelf isn't likely to see the fine print. So USANA relies on direct marketing: the person-to-person contact made famous by Amway and Tupperware.

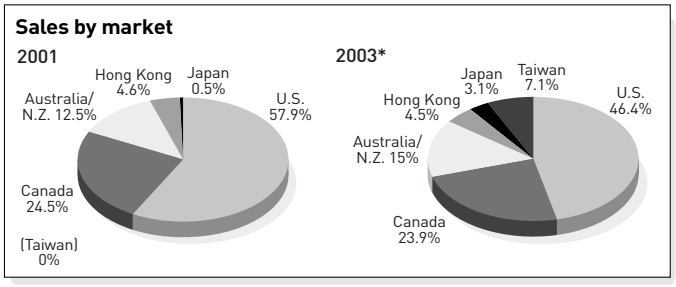
Despite the smarmy reputation of such methods, USANA seems to have avoided the lawsuits and other troubles that take down shady operations.

Fuller boasts that his firm maintains high standards of research and product quality to ensure customers get a good deal.

Spreading The Word

USANA Health Science is expanding its network of direct salespeople to sell its health and beauty products in the far corners of the earth





Source: Company reports *first six months

USANA Health Sciences Inc.
usana.com

Ticker	USNA
Share price	Near 41
12-month sales	$161 mil
5-year profit growth rate	-3%

IBD SmartSelect Corporate Ratings	
Earnings Per Share	83
Relative Price Strength	98
Industry Group Relative Strength	A-
Sales+Profit Margins+ROE	A
Accumulation/Distribution	B-

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"We spend a fair amount of money on research, making sure the latest thinking and evidence is being utilized in our formulations," he said.

In fact, he says quality concerns are what led USANA earlier this month to make the only acquisition in its history, of an unnamed beauty products manufacturer.

USANA makes nearly all of its nutrition products itself, but it had been outsourcing the Sensé line. The firm wasn't happy with the results, Fuller says.

"We just continued to have challenges with our personal care line meeting the quality standards we set," he said. "That's really what was driving the decision."

USANA knows all about challenges. The company's annual sales and earnings fell two years running in 2000 and 2001.

The main problem was a fall-off in the entire supplemental industry, says analyst Van Winkle, who also covers the industry. USANA struggled even more because of its dependence on direct marketing.

"It's difficult in a full-employment economy to get new distributors," Van Winkle said. "Not a lot of people are available for part-time sales work."

USANA's year-over-year sales declined 7% in 2000. They fell another 6% the following year.

But things turned around last year, when the company's revenue rose 17% and its profit more than tripled.

Second-quarter earnings this year gained 156% from the prior year to 41 cents a share. Sales grew 47% to $47.2 million.

Van Winkle credits Chief Executive David Wentz with helping USANA outperform its sector.

Wentz is the son of USANA's founder, Myron Wentz. He took over last July.

"He told a story that the distributors grabbed on to," Van Winkle said. "This business is very much driven by the enthusiasm of the distributor force, and they rallied behind him."

The company is confident enough in its story to take it overseas. It already operated in Canada, Japan, Hong Kong, Australia and New Zealand before moving into Taiwan last year.

The most recent expansion came last week, when USANA launched operations in South Korea. Early next year it plans to set up shop in Mexico.

USANA's foreign strategy, like its product development, is based on research.

"You look at those countries that are friendly and accepting to the direct-sales approach," Fuller said. "You look at the direct-sale industry publications, and it's fairly clear which markets are the large markets."

South Korea is the third biggest market, behind the U.S. and Japan. East Asian countries are fertile ground for relationship marketing, Fuller says.

Thanks to the turnaround, USANA's stock price has zoomed up. It trades near 44 after falling to about a buck at the end of 2001.

But the company is still searching for the Street's respect. No analysts currently cover USANA.

Even Van Winkle, a happy USANA customer, isn't on board. But he's starting to wonder why.

"It was a dollar stock with a very small market cap," he said. "But now the stock's up 4,000%."

Without analyst coverage, First Call has no forecast. USANA's own guidance projects profit this year of $1.65 a share, roughly double last year's. Sales should rise 42% to $190 million.