

Herbalife (Q2 2021 Earnings)

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Corporate Speakers:

- Eric Monroe; Herbalife Nutrition Ltd.; Senior Director of IR
- John Agwunobi; Herbalife Nutrition Ltd.; Chairman & CEO
- Alexander Amezquita; Herbalife Nutrition Ltd.; CFO
- John DeSimone; Herbalife Nutrition Ltd.; President

Participants:

- Wendy Nicholson; Citigroup Inc.; MD & Head of Global Consumer Staples Research
- Stephanie Wissink; Jefferies LLC; Equity Analyst and MD
- Douglas Lane; Lane Research; Principal & Director of Research
- Hale Holden; Barclays Bank PLC; MD
- Jeffrey Van Sinderen; B. Riley Securities, Inc.; Senior Analyst
- Carla Casella; JPMorgan Chase & Co; MD & Senior Analyst

PRESENTATION

Operator: Good afternoon, and thank you for joining the Second Quarter 2021 Earnings Conference Call for Herbalife Nutrition Limited. On today's call is Dr. John Agwunobi, the company's Chairman and CEO; John DeSimone, the company's President; Alex Amezquita, the company's Chief Financial Officer; and Eric Monroe, the company's Senior Director, Investor Relations.

I would now like to turn the call over to Eric Monroe to read the company's safe harbor language.

Eric Monroe: Before we begin, as a reminder, during this conference call, we may make forward-looking statements within the meaning of the federal securities laws. These statements involve assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated. For a complete discussion of risks associated with these forward-looking statements in our business, we encourage you to refer to today's earnings release and our SEC filings, including our most recent quarterly report on Form 10-Q. Our forward-looking statements are based upon information currently available to us. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any future events or circumstances or to reflect the occurrence of unanticipated events.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. generally accepted accounting principles referred to, by the Securities and Exchange Commission, as non-GAAP financial measures. We believe that

these non-GAAP financial measures assist management and investors in evaluating our performance and preparing period-to-period results of operations in a more meaningful and consistent manner as discussed in greater detail in the supplemental schedules to our earnings release.

A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release submitted to the SEC. These reconciliations, together with additional supplemental information, are available at the Investor Relations section of our website, herbalife.com. Additionally, when management makes reference to volumes during this conference call, they are referring to volume points.

I will now turn the call over to our Chairman and CEO, John Agwunobi.

John Agwunobi: Good afternoon, everyone. Thank you for joining us on the call today. During the second quarter, we delivered worldwide reported net sales of \$1.6 billion, growth of 15% compared to the prior year. Net sales grew by double digits for the fourth straight quarter. All 3 of our core product categories grew double digits, led by the energy, sports and fitness category, which increased 45% compared to the prior year.

All of our regions, except China, experienced net sales growth in the quarter, with 4 of our 6 regions increasing by more than 20%. We will discuss China in detail towards the end of my remarks.

The underlying fundamentals of our business remain strong. For the third quarter, we are guiding reported net sales to be in the range of down 1% to up 5%. For the full year, we expect net sales growth to be within a range of 8.5% to 12.5% compared to the prior year.

In addition to our net sales and EPS guidance, this quarter, we have initiated guidance for adjusted EBITDA. For the full year 2021, we expect to generate between \$875 million and \$935 million of adjusted EBITDA, which highlights the ongoing profitability and underpins the cash flow generation of our business. Alex will provide detail on our new guidance and why we believe this incremental metric is valuable for investors as they analyze our business.

Now let me get into our Q2 performance in more detail. The North America region grew by 7% in the quarter, primarily driven by continued strong momentum in the U.S. It is important to note that the single-digit growth is up against an extraordinarily high prior year comparison period. However, the 2-year stack growth rate of 47% in the U.S. accelerated compared to last quarter's 2-year stack. We have seen significant growth in our U.S. nutrition club business as many parts of the country returned to more in-person activities.

Over the first half of the year, we have had an increase of over 2,000 nutrition club locations in the U.S., with the total club count now exceeding 11,000. While we continue to monitor pandemic conditions, we are currently planning a return to some of our in-

person training activities and sales events in the second half of the year, utilizing a hybrid format.

The Asia Pacific region had another quarter of powerful growth, up 38% compared to the prior year. The region had notable strength in Vietnam, which grew 60%; Malaysia, which was up 45%; Taiwan, which increased 21%; and South Korea, which returned to growth with a 19% increase. Herbalife Nutrition India has emerged as the #1 direct selling company in that country based on a recent market research store report. Our Indian business grew 93% this quarter compared to Q2 of 2020.

Recall that in Q2 2020, our business in India was disrupted by the severe public health-related restrictions imposed in response to the onset of COVID-19. Over the past year, our business in India has adapted well to ongoing pandemic conditions, implementing several successful digital strategies, including a virtual nutrition club model. Virtual nutrition clubs incorporate many elements of traditional in-person nutrition clubs, but are conducted through virtual platforms such as Zoom or Facebook Live. Virtual Clubs establish a sense of community and a personal sense of connection, elements that proved incredibly important during the pandemic. The virtual club strategy is now being shared as a model of success with other regions around the world.

The EMEA region set a second straight quarterly net sales record with year-over-year growth of 22%. Strong performances continue to be seen in markets such as Turkey, which was up 63%; Italy, which grew 38%; Belgium, which was up 25%; and Spain, which increased 21% in the quarter.

The United Kingdom delivered 24% growth, which was on top of a challenging comparison of 73% growth experienced in Q2 of 2020. Although combined new distributor and preferred customer numbers are lower than the peak of Q2 2020, we had significant growth of 56% compared to the more normalized 2019 comparison period. We have also seen a 27% year-over-year increase in the number of active supervisors, which reflects the continued strength of the EMEA business over the past 18 months and helped drive the record performance.

Mexico grew 23% in the quarter, its first quarter of double-digit growth since 2013. Net sales growth was aided by a currency tailwind in the quarter. Our members in Mexico are beginning to adopt the preferred customer program, which was implemented in March. We'll talk more about preferred customers in a moment.

Additionally, the South and Central American region grew 23% in the quarter. The region was led by Chile, which grew over 200%; Bolivia, which was up 58%; Guatemala, which increased 57%; and Peru, which was up 20% compared to the prior year. The region also benefited from the implementation of the preferred customer program, which is now live in 8 of that region's markets.

Let me go a little deeper on the preferred customer program, which is one of our key strategic elements. Segmentation, which for us means bifurcating our member base into 2

groups: distributors who intend to sell product, and preferred customers or as they're known in the U.S. preferred members who are only product consumers. The preferred customer program is now live in 25 markets around the world. These markets represent approximately 70% of our total net sales. The ability to identify and distinguish preferred customers from distributors provides us with a powerful dataset on each group. We believe this primary customer data will be incredibly valuable. We will talk more about our preferred customer program and segmentation in our upcoming Investor Day.

We're also seeing more interest in our business from young adults, as approximately 2/3 of new distributors and preferred customers who joined Herbalife Nutrition during the second quarter were millennials or Gen Z. The ability to run their business through digital platforms and to utilize social media to connect with consumers is appealing to this tech-savvy demographic.

As we evaluate future product launches, we have Gen Z and their consumer preferences in mind. This demographic is particularly interested in sports nutrition, clean label products and offerings such as our recently launched hemp cannabinoid products.

Now returning to China. In China, net sales declined 16% compared to the second quarter of 2020. This year-over-year decline for the quarter was below our expectations. We'd like to speak about China in more detail to give you a sense of what we are seeing, and more importantly, what we're doing about it. China represented approximately 11% of global net sales and just under 6% of global volume in the second quarter. We are intensely focused on 2 key metrics that have decreased recently in China: One, the number of new service providers joining the business; and two, the activity levels of our sales representatives and service providers. We are taking a number of actions in the market to adapt our business and to turn these 2 metrics around.

First, we are continuing to invest in our digital platform. We recognized in 2019 that a powerful digital platform was going to be a crucial component of our efforts for the China market. Since we began our digital transformation, we have formed partnerships with Tencent and Alibaba to help support our efforts. We are just now beginning to see the initial results through the increased usage of our tools. Through the first half of the year, approximately 50% of our business was transacted through our recently launched digital platforms.

Second, many of our service providers are shifting their focus to a newer nutrition club model, which includes a smaller scale, more rural location with an increase in daily customer interactions. This type of nutrition club more closely resembles the very successful nutrition club businesses we have in many other parts of the world, such as our U.S. market.

Third, with the goal of improving the activity and quality of our service providers in China, we elected to modify our qualification requirements. Historically, in our business, we found that strategic changes to qualification methods often create short-term disruption, but eventually lead to long-term positive results.

Fourth, beginning this month, we believe we've secured the ability to expedite the business licensing processes for our new service providers, where they can obtain their license significantly faster than getting their license on their own. We anticipate this accelerated business licensing time line will lead to incremental new entrants. Overall, we believe these initiatives will improve the number of new entrants joining the business and create a more active base of service providers in the long term. While below our expectations, China's volume has been more stable sequentially from month to month this year. The China comparisons continue to be difficult for Q3, but they actually get much easier towards the end of 2021 and into early 2022. And we expect China to be additive to the total company growth within the next year.

Lastly, let me add that although at its current level, China is a relatively small part of our overall business, we believe it offers significant growth opportunity long term, and we remain firmly committed to the market. So we've set a date for our virtual Investor Day, which will take place on September 14 at 8:00 a.m. Pacific Time. We look forward to sharing a deep dive on our company, on our strategy and on many of the initiatives that we have underway to drive continued growth.

I will now turn the call over to Alex to review the financials.

Alexander Amezcua: Thank you, John. Second quarter net sales of \$1.6 billion represents an increase of 15% on a reported basis compared to the second quarter in 2020. This was the largest quarterly net sales result in company history. The growth was broad-based as over 50 of our markets grew by double digits or more. We had net sales growth in 4 of our 5 largest markets, consisting of the U.S., which grew 6%; China, which was down 16%; India up 93%; Mexico, up 23%; and Vietnam up 60%. Currency was a tailwind to net sales in the quarter, representing a benefit of approximately 520 basis points, excluding Venezuela.

Reported gross margin for the second quarter of 79.2% decreased by approximately 60 basis points compared to the prior year period. The decrease was largely driven by unfavorable country mix, primarily from China, representing a smaller portion of our overall company sales.

Second quarter 2021 reported an adjusted SG&A as a percentage of net sales were 32.6% and 32.9%, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 26.6%, approximately 30 basis points unfavorable compared to the second quarter 2020. This was largely due to a return to more normal levels of advertising, promotion and sales event spending, which was significantly disrupted during the second quarter 2020.

For the second quarter, we reported net income of approximately \$144.2 million or \$1.31 per diluted share. Adjusted earnings per share of \$1.52 was a beat of \$0.15 above the top end of our Q2 guidance. Our expected year-over-year currency benefit for the second quarter should have been approximately \$0.10 lower than originally projected, which

translates to our actual currency adjusted EPS exceeding the top end of our guidance range by \$0.17. This resulted in the largest quarterly adjusted EBITDA result in company history for the second quarter in a row with adjusted EBITDA of approximately \$262 million. Combined with the prior record in Q1, we have generated over \$500 million of adjusted EBITDA during the first half of the year.

We are issuing guidance for the third quarter 2021 as well as updating our full year 2021 guidance. For the third quarter, we estimate net sales to be in the range of down 1% to up 5%, which includes an approximate 200 basis points currency tailwind. The third quarter 2021 represents the most challenging comparison period of the year as we are comparing 22% growth in Q3 of 2020.

Looking back over the past 4 quarters, the 2-year stack has ranged between approximately 19% and 28%. This quarter's guidance implies a 2-year stack of 21% to 27% growth. Third quarter adjusted diluted EPS is expected to be in a range of \$1.05 to \$1.25. Adjusted diluted EPS includes a projected currency benefit of \$0.06 compared to the third quarter of 2020.

John described earlier the strategic initiatives we have in place to return China to growth. With that said, our expectations for China have come down in 2021. This is reflected in our updated net sales guidance of 8.5% to 12.5% growth on a reported basis. Despite the reduction from China, the midpoint of our guidance still implies double-digit net sales growth for the year.

Currency remains a tailwind, and we now project an approximate 220 basis point tailwind due to currency for the full year compared to the expected 200 basis points benefit from a quarter ago. We are updating full year 2021 guidance for adjusted EPS to a range of \$4.70 to \$5.10. Despite the reduction to the midpoint of our sales guidance, the midpoint of our adjusted EPS range is increasing by approximately \$0.05. This raise to the midpoint of our adjusted EPS guidance is primarily driven by the Q2 beat, partially offset by lower sales expectations in China for the remainder of the year.

For the full year, our guidance includes a projected currency tailwind of approximately \$0.15 per diluted share, which is \$0.03 higher than the currency benefit included in our prior guidance. Incrementally, we are initiating adjusted EBITDA guidance for the third quarter and full year 2021 of \$205 million to \$235 million and \$875 million to \$935 million, respectively. We believe this incremental metric will be helpful to investors as they analyze the profitability and cash flow generation potential of our business.

Now we will turn to our cash position, capital structure and our share repurchase activity. Through the first half of the year, we have generated \$287 million of operating cash flow. This was lower than our cash flow generation in the prior year period. However, for the full year, we continue to anticipate cash flow will be stronger than the \$629 million we generated in 2020. At the end of the second quarter, we had \$838 million of cash on hand.

During the second quarter, we completed approximately \$98 million of share repurchases. Our expectation is that we will complete approximately \$200 million of share repurchases over the remainder of the year, resulting in over \$900 million of share repurchases for the full year 2021. During the quarter, we completed a \$600 million offering of 2029 senior notes at a rate of 4.875%. We used a portion of the net proceeds from the offering to redeem all outstanding \$400 million 2026 senior notes that paid a coupon of 7.25%.

Given the favorable rate differential of approximately 240 basis points, we were able to raise nearly \$200 million more debt at effectively the same interest payment. This transaction resulted in a charge of approximately \$25 million from the loss on the extinguishment of the 2026 notes. This onetime charge was excluded from our adjusted results.

Also, just last Friday, we announced a repricing and upsizing of our term loan A and revolver credit facilities. The borrowing margins both facilities were reduced by at least 25 basis points in a new pricing grid to 2.25% or lower. The revolver was increased by approximately \$48 million to \$330 million with the term loan A increasing by approximately \$41 million to \$286 million. The amendment and incremental commitment from our bank group demonstrates their confidence in our current and future business outlook.

We also incorporated into the term loan A and revolver facilities, a sustainability-linked pricing grid relative to certain ESG KPIs. These KPIs include our use of virgin plastic materials, reductions in greenhouse gas emissions and female diversity in our senior management ranks. Herbalife Nutrition is proud to demonstrate our commitment to an ESG strategy that is measurable through financial incentives.

This concludes our prepared remarks. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from the line of Wendy Nicholson with Citi.

Wendy Nicholson: My question first is with regard to the revised outlook for sales, which comes down just a little bit relative to your prior guidance, which is not a big deal. But I'm just wondering, is that sort of exclusively a result of the change in the China growth expectation? Or is that a little bit of function of Americas business? Or which region would you say is the biggest delta in terms of your prior expectations and leading to that negative revision?

John Agwunobi: Wendy, good question. I'll take that one. The guidance adjustment is exclusively due to our revised forecast in 2021 from China. The rest of the portfolio in the aggregate is performing right where we thought it would 3 months ago, and the change in that top line is related strictly to China.

Wendy Nicholson: Got it. Fair enough. And I guess just then related sort of as a follow-on. I mean, China just seems to be a very stubborn market and kind of hard to predict and hard for a lot of direct sellers to get their arms around. I guess the question is kind of what gives you confidence that the actions you're taking in that market today are the right actions? I know you said you've just recently put in some changes, but are you starting even here early in the third quarter to see any traction from those initiatives? Or is this really going to be sort of a 2022 recovery story for China?

John DeSimone: Wendy, this is John. I'll answer that one. So I'll put in a couple of buckets. So first, China is while down and consistently down now for a few quarters, the sequential nominal volume point is about flat. So they've showed consistency. So whatever happened, it now feels like it's a new foundation. And so I view that as positive. Still has a tough Q3 comp, as John said in his opening comments, but we just annualized that in Q4 really when kind of dropped volume by 18%. So things get easier, and China will be less of a drag. Just by way of context, I wanted to mention that.

The initiatives we're putting in place are initiatives that we've seen work in other markets as we try to build sustainable businesses, one of them being the nutrition clubs at a daily visit clubs, which is different than how China has done clubs in the past. They've done like 7-day programs, 30-day programs, 90-day programs. And now they're opening in more rural communities. There's a lot of energy behind it. So I don't want to overstate where they are in the development of these clubs, but I can tell you our service providers and our management team has a lot of energy put behind this, and there's a lot of excitement around it, although the figures aren't there yet.

But we do know if we can find the right formula for these rural nutrition clubs, that based on the history of things we've seen elsewhere that this could be a strong engine for us. So that's one.

Two, digital class is something that is really just an important strategy, not just in China but globally but even more important in China, which is a very digital-oriented society.

So I think those are the right things. We have not yet seen the uptick from these initiatives. Like I said, we've seen some stabilization, I say that cautiously, but we've seen some stabilization. And now off of that stabilized base, we think these initiatives will work.

Operator: And our next question comes from the line of Steph Wissink with Jefferies.

Stephanie Wissink: My first question is just a follow-up to Wendy's question on China. I'm wondering if we can just unpack a couple of the things that you mentioned. I think it was a decrease in the number of service providers and then also the activity of your existing providers. What are the KPIs that you're going to be watching for over the next several weeks that suggest a turn in those measures? Or are there other measures that

you're going to be monitoring that would help give you some indication that these initiatives are taking hold.

John DeSimone: Well, we look at a lot of measures, but of course, the 2 that we spoke to in the opening, which is one is how many new are we seeing people coming in who are coming in for the business is an important metric because it increases reach. And equally important, what's the activity level and how often are these new service providers or even sales reps, which is a step below service providers, how often are they ordering in a given month, how many months are they ordering. That tells you how active they are, which is a predictor of how retained they are. So those are the ones that will have the most visibility. They won't be the only ones we look at, but those are the ones we look at and probably update you on Investor Day.

Stephanie Wissink: Okay. And then Alex, just as a follow-up in connected to China. Just help us think through the balance of margins, SG&A and gross margin. I just wanted to make sure that we recognize with China being down that there's probably going to still be some gross margin headwind, but you've had some nice SG&A offsets, so how should we think about the balance in the back half?

Alexander Amezcua: Yes. I mean you nailed it right. So when China changes disproportionately as a percentage of net sales, either on year-over-year comps or sequentially, you're going to see gross profit headwind that gets made up in other parts of the P&L. So net-net, from an OI perspective, it will net out. But yes, as a percentage, you'll see some headwind. And that's effectively what you saw in Q2. So you saw, if you look at the year-over-year gross profit coming down from where we were in 2020, that's largely because of mix. Currency and pricing sort of offset each other, and that percentage came down because of the China mix.

Overall, from a profitability standpoint, if you look at our OI, you see OI increasing by about 40 to 50 basis points year-over-year. So overall, the profitability doesn't change from the net sales mix, but -- from an OI perspective, but from a gross margin perspective, it is. So I think you kind of nailed it, but that is an important distinction to make.

Stephanie Wissink: Okay. Last one is a quick one just on pricing. We're hearing from a lot of companies that commodity shipping costs are creating some inflationary conditions and passing through some pricing. Can you talk a little bit about your pricing strategy for the next maybe even 6, 12 to 24 months?

Alexander Amezcua: Sure. So pricing for us, sort of a rule of thumb for us is around the world, we increased prices about an annual basis, sometimes twice a year, consistent with the local inflation of that market. So whether it's in the U.S. or somewhere outside of the US, whatever local CPI is in that market, we have the pricing power to match price increases in that market.

So presumably, if this continues, and I know that there are some competing views from the Fed and otherwise of whether or not the local wage inflation and raw inflation is transitory or more permanent, should it be more permanent, you'll see that in inflation. And if that does happen in inflation, then we should be able to take advantage of that through price increases. So we're keeping an eye on it.

From a near-term perspective, we have long-dated contracts on our major raws. So we don't see that volatility from week to week or quarter to quarter. We have a little bit more visibility into what that looks like. So we will continue to monitor it, but I don't anticipate any sudden spikes on our input costs. There may be some areas of pressure from some of our more packaging, that type of thing. But in terms of the large share of our input costs, we have longer-term visibility into those changes.

Operator: And our next question comes from the line of Doug Lane with Lane Research.

Douglas Lane: First question, Alex, in your adjusted EBITDA number, does that include stock-based comp?

Alexander Amezcua: Yes, it does.

Douglas Lane: Okay. And then secondly, just...

Alexander Amezcua: So in other words, the stock-based comp is not taken out of the number. It is considered an expense in the P&L.

Douglas Lane: Okay. So -- okay, that is what I heard. Okay. So the adjusted EBITDA does not adjust for stock-based comp.

Alexander Amezcua: That's right. It's loaded. It's loaded with the expense.

Douglas Lane: Okay. That makes sense. And then secondly, just stepping back, I'm looking at a metric that I keep an eye on. The average sales leaders with volume points, which has now been up double digits for 4 straight quarters. And honestly, I can't remember a run where that number has been that strong, and it seems like it will be a pretty powerful leading indicator for your business going forward. So if you could just maybe get -- if I can get your perspective on how you read that number, what's driving the strength, and what's your viewpoint on the sustainability of that strength?

John DeSimone: Doug, this is John D. I'll take that question. So it's -- in terms of its impact in near-term performance, it's one of the more important nonfinancial metric because it talks about how many active sales people we have. And obviously, that's important in predicting the next 3, 6, maybe even 9 months. A leading indicator of active sales leaders is how many new people are coming in, which is the pipeline to becoming a sales leader.

So we -- it all flows into a model that we use or actually, multiple models that we use. But if you were to look at one of the more correlated nonfinancial metrics with near-term performance, it would be average active sales leaders. Now having said that, it's not a high correlation, but it's one of the more correlated nonfinancial metric.

Douglas Lane: And what do you think has been driving that? Does this have to do with the macro environment being what it is? Or does it have -- does it play off your recent segmentation strategy? I mean what do you think is driving that particularly strong period for that number?

John Agwunobi: Doug, it's John A here. So I think a couple of things. Some might be more obvious to the listeners than others. First of all, I think our underlying business, which is kind of over the last 3 years, especially, has been driven by a strategy of expanding our product portfolio, building out in each of our regions, in each of our markets, the strength of our distributor channel and then things like nutrition clubs here in the U.S. and beyond, that served as a great base.

Now going into the pandemic, I think what then was layered on top was an acceleration of the uptake of social media and other digital strategies by our channel, by our sales force and then, of course, the increases in demand that we saw from consumers. Now I do think that as you then take all of those things, those ingredients that I just described and translate them out into the future, you're going to find that we have a distributor base that is much more linked to its consumers using digital technology, social media and so forth a consumer that continues to be much more aligned with the need for healthy nutrition and the kinds of products that we sell.

And then lastly, of course, I think an appreciation across both the distributor workforce and the consumers that health is controllable, that it is driven by behavior. So having said that, I think technology, increased demand and a strategy that is working.

Operator: (Operator Instructions) And our next question comes from the line of Hale Holden with Barclays.

Hale Holden: I had 2 questions. The first one is you made a comment in the script that the new Gen Z and millennial distributors were more interested in sports nutrition. And I was wondering if you were seeing a definitive shift in what they were selling versus maybe some of your more tenured distributors.

John DeSimone: Yes. This is John D. I'll take it. So I think it's kind of a circle. So I think sports help attract a younger distributor and a younger consumer base into our franchise. And that was the driver. And once you bring in somebody who's interested in sports, that's the products they decide to sell. So yes, we are, in fact, seeing obviously higher growth in our sports nutrition products and energy products. It grew 45% in the quarter, almost 4x the growth rate of our weight management category in the quarter. So that is driven by the younger demographics of our distributor base and our customer base.

Hale Holden: Great. And the second question is, you also mentioned that you were going to restart, I guess, hybrid meetings. The question is would we -- is that enough to see SG&A in the back half of pickup or not really?

John Agwunobi: Yes. The intention is that there is some expense in Q2 that we -- that is delayed to the back half. So the intention is to continue to pick up that spend. Overall, there was more spend in Q2 2021 over 2020. The expectation, though, COVID is impacting various markets still in a way that has made planning difficult. And so some of that spend in Q2 of this year that we intended to spend did get delayed to later in the year, so we can kind of deal with those adjustments. But the intention is to pick that spend up in the back half of the year.

Operator: (Operator Instructions) Our next question comes from the line of Jeff Van Sinderen with B. Riley.

Jeffrey Van Sinderen: I just have follow-up to that on the in-person meetings. Maybe you could just touch on the digital engagement trends, how those are evolving during reopening? Are people -- distributors just shifting to do more in-person? Or I guess, how much of the digital engagement way of operating, do you think, will stick?

John Agwunobi: Well, I think -- I'll start with that one, Jeff. Thanks for joining the call. So I think that the tools that the distributors have learned over the past year, they're not going to necessarily just abandonment. There's real benefits of reach. There's real benefits of scale. There's real benefits of productivity that will endure undoubtedly endure. The opportunity to now use where -- in some markets, this isn't everywhere yet. But to use their bread-and-butter skills in-person obviously, from a mix shift standpoint, as they go back to some of their in-person, they'll be -- it's like squeezing air in the balloon, right? So naturally, a percentage of their time they spent digitally will be spent in-person.

With that said, the benefit of being able to do both is that they can use whichever tool is the most effective whatever they're trying to accomplish. So the way we see it is that our distributors are now armed with more tools to -- depending on where they need to spend their time, whether there is an in-person need to develop that stickiness, that long-term customer relationship or there's an ability to use digital tools to help with productivity, scale, those types of tools. That's how we see things going forward.

Jeffrey Van Sinderen: Okay. And then I haven't heard a lot of talk about kind of the more weight control-oriented part of the business. It seems like COVID restrictions tended to drive weight gain in some parts of the world, I believe, including the U.S. Any more color you can give us on trends you're seeing around weight control with reopening and I guess your outlook for that segment of the business going forward.

John Agwunobi: Yes. I don't -- with respect to the correlation to weight gain and the interest from a weight gain perspective, we haven't seen that in -- if we look at baskets or if you look at product information, that -- we don't really see that in sort of the ordering behavior. Now clearly, there are consumer trends pointing to the fact that -- and this

could be validated by third parties, not just us, that generally populations are looking for opportunities to be more healthy and to put nutrient-dense products in their body going forward. So we're obviously a company that benefits from that consumer trend. And so going forward, we look to continue to capitalize on that consumer trend.

Operator: And our next question comes from the line of Carla Casella with JPMorgan.

Carla Casella: I may have missed it, but did you give a leverage target?

John Agwunobi: It's -- our leverage target has been the same leverage target that we've had for quarters, if not years. It's 3x gross. Obviously, over the past couple of quarters, we're a little bit under that, even on a pro forma basis with the recent debt financing -- refinancing, et cetera, which is really more of a function of our denominator. EBITDA growth has just been so significant.

So we're a little bit under that target. We've always said there'll be ebbs and flows. We may be under it. We may be over it depending on maturities and depending on EBITDA growth. But we feel really good about our capital structure right now, and we'll continue to monitor it to look for opportunities to always hover around that 3x growth so that we are managing overall our company as an investment-grade debt company.

Carla Casella: And your ratings, they don't reflect investment grade yet. They're split between BB and B on the bond. Had you have a sense for what the agencies want to see? And if you're -- as you get -- is size and diversification enough? Or is there something else they're waiting to look for a potential upgrade?

John Agwunobi: Yes. So 100%. So we're hopeful we're on that path to investment grade. We're managing this company so that we can achieve that. Obviously, we know it takes time for the rating agencies to sort of catch up to where we think we belong.

From a financial point of view, I don't think there's a ton of disagreement that our financial metrics are representative of that. And I think they'll continue to look for assurance in the business model as we go forward and sort of just continue to execute and continue to be consistent and continue to show how we're differentiated overall from a direct selling perspective in terms of our risk profile.

Operator: And I'm showing no further questions at this time, and I would like to turn the conference back over to John Agwunobi for any further remarks.

John Agwunobi: Thank you. Well, let me start by thanking all of you for joining us. We appreciate the opportunity to explain where we are and more importantly, where we're going. With that comment in mind, I'm going to put a shameless plug here. We have Investor Day, our Investor Day coming up, it's going to be on September 14 at 8:00 a.m. Pacific Coast Time. Go to the IR website, the Herbalife Nutrition IR website. It's brand new. It's -- we're very proud of it, and we're going to be making it better with time. But

the details will be available to you there, how to log on, how to -- it's going to be a virtual Investor Day, obviously.

Beyond that, I would just say, we're very proud of our distributors around the world for their work. They've done an amazing job. It helped us deliver this fourth straight quarter of double-digit net sales growth, and we're all very excited about the future. Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.