

## Herbalife Ltd. (Q3 2021 Earnings)

November 2, 2021

### Corporate Speakers:

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

### Participants:

- Unidentified Participant; Jefferies; Analyst
- Wendy Nicholson; Citigroup Inc.; MD & Head of Global Consumer Staples Research
- Jeff van Sinderen; B. Riley Securities, Inc.; Senior Analyst
- Doug Lane; Lane Research; Principal & Director of Research
- Hale Holden; Barclays Bank PLC; MD
- Unidentified Participant; Bank of America; Analyst
- Ivan Feinseth; Tigress Financial Partners LLC; Director of Research
- Unidentified Participant; Unknown; Analyst

## PRESENTATION

Operator: Good afternoon, and thank you for joining the Third Quarter 2021 Earnings Conference Call for Herbalife Nutrition Ltd. On the call today 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 and 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, 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](http://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 the call today. Over the course of the global pandemic, we have delivered unprecedented business performance and growth. Despite challenging comparisons in the third and fourth quarter, we remain on track for another record sales year. The fundamental tailwinds driving the global nutrition industry, along with demand for our science-based nutrition products, continue to benefit the company.

In Q3, we reported worldwide net sales of \$1.4 billion, a decline of 6% compared to the prior year period. These results were in line with the updated guidance that we issued in September. It's important to acknowledge that the third quarter was impacted by a challenging year-over-year comparison period. On a 2-year stack basis, net sales grew 15% compared to the third quarter of 2019.

For the third quarter, we reported earnings per share of \$1.09 per diluted share and net income of \$117.4 million. Adjusted diluted earnings per share of \$1.21 was above the top end of our revised Q3 guidance. Adjusted EBITDA of \$222.4 million also exceeded the high end of our guidance range. Uncertainty in global markets fueled by the ongoing pandemic and the Delta variant has presented challenges in predicting behavior in our channel.

As we discussed at our recent Investor Day, we observed lower-than-expected activity rates during the month of August, which led to our revised Q3 and full year 2021 guidance. The decrease in activity rates was primarily driven by fewer new distributors and preferred customers entering our channel. This lower level of contribution from new entrants remained relatively consistent in the month of September and is reflected in our guidance for the remainder of the year.

For the quarter, the number of new distributors and preferred customers joining the business was down 19% compared to record numbers of new entrants in Q3 2020, but it was still up 28% compared to Q3 of 2019, excluding China. Despite the slowdown in new entrants, we remain confident the foundation of our business is strong, and our long-term strategy is solid. In Q3, the number of sales leaders actively selling in the channel was up 10% compared to the prior year period, excluding China.

Turning to our regional performance. The Asia Pacific region had another quarter of double-digit net sales growth, up 11% compared to the prior year. The region was led by continued strength in India, which grew 46%. India set its fifth straight quarterly net sales record as well as a monthly net sales record in September.

Over 220,000 new preferred customers joined the business in India, a record number, and a reflection of the momentum that we are seeing in that market. In Vietnam, government COVID restrictions forced our Nutrition Clubs to close for the quarter, which contributed to growth of 13%, which was lower than the growth rates we had recently experienced in that market. Additionally, a third wave of COVID-19 throughout Indonesia resulted in community restrictions in all provinces, and impacted our nutrition club utilization, resulting in a sales decline of 10%.

Looking at North America. We saw a decline in net sales of 11%. This decline is up against an extraordinarily high prior year comparison period. The 2-year stacked growth rate in the region increased 38% compared to Q3 of 2019. We continue to see strength in our U.S. nutrition club business as many parts of the country returned to more in-person activities. While we continue to closely monitor pandemic conditions, we kicked off a series of in-person distributor events in October, and are encouraged by the initial attendance and the excitement in the channel as we begin to once again meet face to face.

Similar to the North America region, EMEA experienced a challenging year-over-year comparison, resulting in a 4% decline. However, in the region, we have seen a 16% year-over-year increase in the number of active supervisors, which reflects the continued strength and solid foundation of the EMEA business.

Looking at the 2-year stack in the region, EMEA grew 33% compared to the third quarter of 2019. Although the combined new distributor and preferred customer numbers are lower than Q3 2020, we saw growth of 24% compared to the more normalized 2019 comparison period. In China, net sales declined 30% compared to the third quarter of 2020. During the second quarter earnings call, we outlined the actions that we're taking in the market.

Overall, we believe our strategic initiatives, which include a focus on our digital transformation and daily consumption at Nutrition Clubs, will improve the number of new entrants joining the business and create a more active base of service providers in the long term. Although the impact of these initiatives is yet to be seen in our top line results, we remain confident, and expect these strategies will benefit our sales performance over time.

Turning to guidance. For the full year 2021, we are reiterating the outlook that we provided in September for the top and bottom line. Alex will take you through our guidance in a bit more detail shortly. In line with many of our peers in the direct selling industry as well as mid-cap food and nutrition companies, we expect to provide guidance for full year 2022 in February as part of the Q4 2021 earnings release.

We anticipate this to be our go-forward cadence, which will allow time for additional data to flow through our forecasting models. Although the unpredictable and unprecedented nature of the pandemic and its economic impacts have resulted in near-term variability in our business, we remain firmly confident in the long-term growth strategy that we outlined in detail at our Investor Day.

One of the initiatives that we outlined at Investor Day to accomplish this growth was new product innovation. And over the past several years, we have strategically built out our Herbalife24 sports nutrition brand through new products and global expansion. And this has contributed to impressive growth in the energy, sports and fitness category, which has increased at an 18% 3-year CAGR from 2017 through 2020 and growth of 31% year-to-date.

We anticipate new products will be a long-term growth driver in our business, and accelerating new product development will be critical. Currently, products introduced in the prior 3 years represent only 14.5% of volume points in 2020. Our strategic objective is to increase sales attributable to new product development within the last 3 years to 25% over the next 5 years by localizing product development and improving speed to market.

We hope that you were able to attend our Investor Day where we outlined additional aspects of our growth strategy, and shared our vision on the future of the company. For any of you that were unable to join, a full replay of the event is currently live on our Investor Relations website.

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

Alex Amezcua: Thank you, John. Third quarter net sales of \$1.4 billion represents a decrease of 6% on a reported basis compared to the third quarter in 2020. This was in line with updated guidance we provided in September, and a 15% increase on a 2-year stack basis compared to Q3 2019. We had year-over-year net sales growth in 3 of our 5 largest markets, consisting of the U.S., which decreased 11%. China, which was down 30%. India, up 46%. Mexico, up 6%. And Vietnam, up 13%.

Currency was a tailwind to net sales in the quarter, representing a benefit of approximately 165 basis points, excluding Venezuela. Reported gross margin for the third quarter of 78.7% decreased by approximately 10 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. The decreases were largely offset by the impact of routine price increases.

Third quarter 2021 reported and adjusted SG&A as a percentage of net sales were 34% and 33.6%, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 27.6%, approximately 100 basis points unfavorable compared to the third quarter 2020. Although this level of SG&A spend is still below our historical levels, it was an increase compared to the prior year where costs were significantly disrupted by the global pandemic.

For the third quarter, we reported net income of approximately \$117.4 million or \$1.09 per diluted share. Adjusted earnings per share of \$1.21 was above the high end of our Q3 guidance, and was an increase of approximately 5% compared to the prior year period. Currency was a benefit of \$0.04 in the quarter versus the prior year period. Adjusted EBITDA of \$222 million also exceeded the high end of our guidance range.

Over the first 9 months of the year, the company has generated over \$409 million of net income and \$740 million of adjusted EBITDA. Our adjusted diluted EPS and EBITDA figures continue to exclude items we consider to be outside of normal company operations and provide measures we believe will be useful to investors when analyzing period-over-period comparisons of our results.

This quarter, you will notice we have a new exclusion item for onetime expenses related to transformation initiatives. Management has begun efforts to design and build to reorganize both front and back office operations. We continue to assess scope, and will update investors in February.

Turning to guidance. We are reiterating our fiscal year 2021 guidance for the top and bottom line. This calls for net sales growth of 4.5% to 8.5% and adjusted EPS of \$4.55 to \$4.95, and adjusted EBITDA of \$860 million to \$910 million. Across the guidance ranges, this implies annual records for net sales, adjusted EPS and adjusted EBITDA. Our fiscal year 2021 CapEx guidance has been updated to a range of \$145 million to \$175 million.

Currency remains a tailwind, and we project an approximate 200 basis points tailwind due to currency for the full year compared to the expected 220 basis points benefit from a quarter ago. For the full year, our guidance includes a projected currency tailwind of approximately \$0.11 per diluted share, which is \$0.04 lower than the currency benefit included in our prior guidance.

As John referenced, we are expecting to provide guidance for 2022 on next quarter's earnings call. We will also be monitoring potential inflationary impacts on our business. Like many other companies, we have started to observe higher-than-usual cost increases in our supply chain with respect to raw materials, shipping costs and labor at our manufacturing facilities.

Now we will turn to our cash position, capital structure and our share repurchase activity. Through the first 9 months of the year, we have generated approximately \$375 million of operating cash flow. During the third quarter, our cash flow was negatively impacted by timing on several working capital accounts. Given this unfavorable timing, we no longer anticipate operating cash flow to be higher in 2021 than 2020. However, we expect these items to net out in 2022, and results in a relatively more favorable cash flow environment next year.

At the end of the quarter, we had \$678 million of cash on hand. During the third quarter, we completed approximately \$162 million in share repurchases. Given the level of our share price, we were able to opportunistically accelerate our repurchases ahead of our initial expectation of \$100 million for the quarter. Our fully diluted share count as of the end of Q3 was approximately \$105.3 million. We expect to complete approximately \$100 million of share repurchases during the fourth quarter, which will result in just under \$1 billion of share repurchases for the full year 2021.

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

## QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Our first question will come from Stephanie Wissink with Jefferies.

Unidentified Participant: This is [Chris Neamonitis] on for Steph. So the increase in average sales leaders in the quarter as a strong positive. Can you maybe talk about what levers you look to, specifically in the near term to sort of reinvigorate those productivity levels among the existing base, and then for newer sales leaders to maybe kind of ramp up their productivity? I know you talked about new product rollouts, but given current operating dynamics, does that inform timing when you launch those new products?

John DeSimone: This is John. I'll take that. First of all, the timing is impacted based around generally events where we can promote the new product and educate distributors of new products. So it's not impacted based on activity levels of distributors. To go back to your earlier question, the thing that we most look for would be new member activity underneath these active sales leaders.

They are a customer acquisition vehicle. There's a couple of things we look to for them. One is engagement and generation of new customers, and second is productivity. So those are the metrics that we will look at when it comes to -- and that's just broad-based. When it comes to success of new sales leaders, it really is about activity in their first 90 days. That's what becomes the most predictive element of their success long term.

Unidentified Participant: Got it. And then I think you guys mentioned some routine price increases in the quarter. But I'm just wondering, if inflation has picked up. Is there any elevated attention on taking up pricing where you can? So just really thinking about

elevated costs in transport, labor and packaging. If you're not planning on flexing your pricing power in the kind of the near term, could you give us a little more color on how you think about the mechanics behind that?

Alex Amezcuita: Yes. Sure. So our pricing policy is consistent, whether it's in this environment for over the years. And what that is, is pricing increases in line with local inflation around the world. So to the extent that inflation escalates in any 1 particular market, then we'll be taking pricing commensurate to that.

John DeSimone: Yes. Let me add that -- this is John. Let me just add that, obviously, this year has got a little bit of an unusual feel to it in terms of the amount of inflation in the countries it's hitting, especially on the supply chain side. So Alex mentioned in his opening comments, just some increased cost on the on the supply chain side and how much of that -- we'll have some pricing flexibility on the front end to cover some of that, whether we get all of it or not, we're still working through.

Operator: Our next question will come from Wendy Nicholson with Citi.

Wendy Nicholson: My first question has to do with the guidance for the full year. given that you're 9 months of the way through and in fact, 10 months since you've got October. That's a crazy wide range for the fourth quarter, the implied guide for the fourth quarter. So what's contributing to that? Is that anxiety over COVID? Or is it uncertainty over any particular market? Just -- and any directional sense you think you're going to come in at the lower and higher end of that range for the full year? Any more color on the fourth quarter would be great.

Alex Amezcuita: Sure. Wendy, I'll take that. So the guidance range is exactly that. It is wider than we normally would have at this time of the year. And your first comment hit the nail on the head. It is the impact of the pandemic around the world either directly as it relates to Southeast Asia, for example, or indirectly as it influences behavior in markets like North America and Europe. It's just providing a more challenging environment to forecast than we normally have. And so the wideness in the range reflects that ability for us to kind of bake in some of that unpredictability as it relates to the environment.

Wendy Nicholson: Okay. Fair enough. I get it. And just -- I know you don't want to comment on 2022, but still just sort of given what we've seen, certainly in the third quarter, I mean your comps are -- they're still tough, obviously, in the first half of next year. And I'm just wondering if there's any sort of directional guidance you think year-over-year growth might still be negative in the first and second quarter. Or any sort of directional sense even just at the beginning of 2022 that you could offer?

Alex Amezcuita: Yes. No, we're working through 2022. So obviously, I can't really comment on that. What I can comment on is in the guidance implied, and you can just do the math. You're having a Q4 comp that for most of the range is better, sequentially, than Q3. So we do anticipate as we move on to have each passing quarter to have better and

better comps. Now where that will end in 2022? That's the work that we're doing, and we'll come back to you in February with a look on that.

Wendy Nicholson: Okay. And just again, to that point and not to drill at home too close, but like the U.S. market, I know, still up more than 30% and on a 2-year stack basis is amazing. It's fabulous. But I'm just wondering how much that might unravel. So the question specifically is in the September quarter, can you give us a sense for just in the North America market, sort of July, August, September, what the sequential -- or what the progression was month-to-month so that we can have a sense just for the North America market, what the forest order might look like.

Alex Amezcuita: Yes. I mean this really varies from market-to-market. So I'm not going to go into those -- I don't know if it's going to be helpful to go on a market-by-market basis. I mean, generally speaking, August was -- tending from a volume point perspective, from a comp perspective was about the low point that we were at. Now how that's going to translate on a market-by-market basis really varies. What I do know is kind of the comment that I just hit on was that generally for the company, Q4 is going to be better from a comp's perspective than Q3. That's our expectation. And on a market-by-market basis, we're just going to have to see how it goes.

Wendy Nicholson: Fair. Totally fair. And then if I can sneak in one last one, and I apologize, but there obviously is a lot going on. Alex, one of the things you talked about during the pandemic was the fact that more distributors and more customers were having the product shipped direct to their homes. They [work] on to the Nutrition Clubs as much. And I know you mentioned in the prepared comments that more people were going out to the clubs.

But is there anything more -- and I'm thinking about the U.S. market here specifically. Is there anything more you can say about that in terms of maybe the percentage of the business that's still being shipped direct to consumers? And obviously, the reason I ask is the freight environment. And I'm just wondering how much higher your costs are. What your service levels are? Are there charges being put on the business? Are people ordering stuff and not getting it for weeks on end, just because the U.S. supply chain for so many consumer staples companies is so challenged? So maybe if you could just give us a little bit more color on that dynamic.

Alex Amezcuita: Yes. No problem. A lot of what you said still holds true. So home delivery as a company, as a -- in totality, there is still a higher percentage of that than there was historically pre pandemic. And you'll see that reflected in our COGS. Our COGS is still at levels that are probably a point below normal run rate just as a result of that phenomenon. Now 1 slight edit. It's not necessarily that it's distributor is not going to Nutrition Clubs in home delivery.

But in most markets, what we have are these sales centers. locations that are funded by the company so that distributors can come in-person and pick-up product. Oftentimes, there's other attributes like education, et cetera, that they will get at those sales centers.



So it's really more of that activity. than the disruption in the Nutrition Club activities. Our Nutrition Clubs have -- the distributors out there have figured out other ways to solve for in-person challenges in those particular markets.

The other comment related to freight, yes, we are seeing that -- those challenges on the horizon. It hasn't materially impacted Q3. But we do see that it's going to start to have an impact into Q4 and beyond. So we're looking at ways to solve those types of inflationary pressures as we think of the cost structure going forward.

John DeSimone: Yes. And if I could just add, just to be -- because you asked this question, relative to other companies. We're not seeing supply issues, customers are getting their product, distributors are getting their product. It really is a cost -- this cost pressure more than there is out-of-stock pressure.

Operator: Our next question will come from Jeff van Sinderen with B. Riley.

Jeff van Sinderen: Just kind of a follow-up to the line of discussion earlier. Just obviously, tough compares to peak COVID restrictions this year versus last year. I know you're not guiding for 2022. But looking forward to next year, conceptually, can you give us your latest thoughts around the favorability in metrics in second half of next year versus second half of '21? In other words, why -- I guess what I'm trying to get at is why wouldn't the business inflect positively year-over-year in second half of next year?

Alex Amezcuita: Jeff, I -- unfortunately, I'm just going to have to reiterate my prior comment. I can't really give more -- we're doing the work for 2022, and we're not prepared to kind of give more guidance than that. I'll point to, again, we see improving comps in Q4 over Q3. Where that lands? At what point in '22 do we turn from -- to growth and positive, and how does that influence the overall year of 2022 over 2021? That's a TBD, and we'll come out and give a lot of color on that in February.

Jeff van Sinderen: SP-2. Okay. Fair enough. And then for new people entering the name, can you maybe provide clarification around the share count, really relevant to whether you're still including the treasury shares? I think previously retired by one of the international entities of the company that I believe are still included in shares outstanding? Or maybe I'm mistaken there. And then if they are included, maybe you can just touch on, I guess, why they aren't formally retired at this point? And when will they be?

Alex Amezcuita: Yes. So the -- so I think what you're referring to is we have about 10 million shares that's held in an entity and HBL Swiss entity. For accounting purposes, those shares are not allowed to be retired as other shares that the company repurchases. So from the purposes of GAAP accounting, those cannot be retired, but practically, those are shares held by the company and can be assumed as retired. As it relates to diluted EPS and adjusted diluted EPS. Those shares aren't in that number. So those shares are treated as if retired. But if you look on the cover of the [Q], and you look at the share count there, it will be higher by those 10 million shares.

Jeff van Sinderen: Okay. But those are not in the EPS count.

Alex Amezquita: Correct.

Jeff van Sinderen: Okay. Great. And then just maybe if I could squeeze in 1 more. Just any thought any more thoughts around China, the turnaround initiatives, I know you're working on there. Maybe how the partnerships with Alibaba and Tencent are progressing? Any other color to add in China?

John DeSimone: Yes. Not a lot of color. I mean, I will point out that it's about 5% of our volume right now in China, right? So it's not a big part of the business. What it is, is a big opportunity. We're working through the foundation of that business to make sure we can build it sustainably. We haven't found an inflection point yet, but we've got a lot of initiatives going on, the same initiatives that we talked about at Investor Day in last quarter's call, and we continue to pound away and what we believe will ultimately turn that market around and be a foundation for strong growth for the long term.

Jeff van Sinderen: Okay. Best of luck in the rest of Q4.

Operator: Our next question will come from Doug Lane with Lane Research.

Doug Lane: John, I'm staying on China, I get that it's not as big as it used to be, but it's still your second largest market. And you've outlined your initiatives, and I get that, but it's the whole sector that's just been pummeled. I mean your business is half of what it was 3 years ago, but you're not alone. So can you just address the macro environment in China? Why you're still excited about the long-term growth opportunities after such -- suffering such declines over the past 3 years?

John DeSimone: Yes. Let me just make sure we're clear on when you say second largest. From a volume standpoint, it's not even close to the second largest. I understand from net sales, and that's because of the nature of the marketing plan in China, right? But -- right, a lot of the costs associated with running the business in China falls into SG&A, where it's in the sales waterfall in other markets. So if you would kind of make it apples-to-apples, which is why I look at volume, it's 5% of our business, it's not material.

I'm sure in the macro environment, the whole industry has softened. We've actually suffered, I think, a little bit more than most. But I keep coming back to China, big picture, the government has an initiative focused on healthy [weight] by 2030. It's important to the government. It's important to the economics of China for their consumers to be healthy. It's one of their initiatives to actually take down the cost of health care. And so I think we fit into a space that solves a real issue for China. We have to all, us and competitors, find out how best now to adapt to the changing consumer environment in China.

So I think it's still -- we have great content there, which is our product. We have great distributors there. We just have to find the nuances that will work in order to find the customers. And look, we've done it. We've been through other markets, whether it's been consumer behavioral changes. And ultimately, the strength of this model is it's not corporate L.A. Herbalife or even Shanghai Herbalife which is trying to find a solution. It is 1,000 distributors. And together, I'm pretty confident we will find the best way to reach the consumer with our products.

John Agwunobi: Yes. Doug, this is John Agwunobi. Let me just add a comment or 2 on that point as well. Specifically to your question, why are we so excited about the future? How can you not be? When you look at the size of that market is -- and not just when I say the market GDP related, I mean, just the growth in the numbers of people in that market and the consumers in that market. The fact that the government is increasingly supportive and pushing towards more local consumption, small businesses.

These are all areas -- and nutrition, as John pointed out, these are all areas that are core to what we do in that marketplace. I think with the digital transformation that is underway in China, I think there's significant opportunity -- and the new models in the Nutrition Clubs, there's significant opportunity, I think, for us to garner share in many cities where we really haven't played in the past, whether that be the second tier cities or beyond. We typically -- I think the business over -- in the past was very focused on top tier cities. And so now we're going into parts of China that we really haven't been in before, where a lot of people live and reside and work and consume.

So we're feeling really optimistic about the long term -- and now clearly, as John pointed out, there's an opportunity for us to get to that inflection point. But we're confident that once we get there, things will turn in the right direction. One last thing. Even in China, we've seen declines in the past. That reversed. If you look at the numbers of quarters that have been up versus the number of quarters that have been down, they roughly kind of match each other over the past 10 years or since we've been there, and we bounced back from declines in the past. And we're confident we'll do it again this time.

Doug Lane: Okay. That's good color. And then shifting gears. Alex, can you put a little bit more color behind what's going on with working capital? Something must have happened in the third quarter to cause an acceleration in the investments in working capital. And the swing factor in general versus last year is large. And then if you could particularly address the \$160 million negative swing in other current liabilities? .

Alex Amezcua: Yes. You hit the nail on the head with respect to the working capital accounts. So what we had is -- because of the sales forecast, we have a built-in inventory. That was from a quarter ago, a bit unexpected. However, in the current environment, I think we're all happy to make sure that we have inventory around the world with the supply chain situation that we have today. And a lot of accounts related to sales like advanced sales receipts and those types of things that we've had in the past when you have sales going in the reverse direction from the prior year, it simply creates large swings in working capital.

And all of these effects, as you know, are timing effects. So while unfortunately, it does result in operating cash flow being lower currently as it was last year. That should net out those timing of -- those accounts will net out probably in 2022 at this point. And then -- and so in the overall long-term cash flow picture should not be a headroom. It's just a temporary timing issue.

Doug Lane: And again, without getting into [weeds] too much, what is that huge negative swing in other current liabilities?

Alex Amezcua: There's a number of accounts. There's a number of accounts in there, for example, the advanced sales receipts that I mentioned. There's a long laundry list in there. But some of those numbers, obviously, because of the aggregate number, can, at times, wind up being large numbers.

Operator: Our next question will come from Hale Holden with Barclays.

Hale Holden: I just had one. When you guys talked in September, I think there was a little bit of surprise or confusion on why activity rates for new customers primarily had fallen lower. I was wondering if your data has showed you anything to indicate what was driving that.

John DeSimone: Well, it is kind of -- it's the same thing we said in September. Whatever the reason, the data looks the same, right? So it ends up being anecdotal through studies. And certainly, in some regions, the world's opened up, and people went back to school on a vacation. And some of the behavior we're seeing is coming back to what we had traditionally seen pre COVID. And actually in some other regions, in APAC specifically, there's a number of countries where the restrictions or lockdowns from COVID have really just increased in that sort of our business.

So there is no 1 reason. It's very regionalized. I think the 1 country that you can look to that really didn't have any kind of COVID event, any brand new openings or restrictions is India, right? India has kind of been ahead of the game in recent months. And the number of new in India has been -- it's up 55%, 56% versus a year ago, and that's been a big driver of the business. So again, just kind of to reiterate, when we talk activity, we're talking -- it's a data metric, right? It's -- and the metric we're seeing that's really suffered the most is the number of new. And again, I think that's just something that will cycle through.

Operator: Our next question will come from William Reuter with Bank of America.

Unidentified Participant: This is Mary on for (inaudible) So I understand you have long-term contracts with many of your suppliers. But when will you renegotiate or renew those contracts? And now that you are seeing some raw material inflation, what kind of increases would you expect in these contracts?

Alex Amezcuita: Yes. So that's correct. So we are starting to see inflation creep into our cost of sales, not so much in Q3, but I do anticipate that it will be in Q4 and beyond. Those contracts that you've mentioned for a lot of our raws have been locked in with modest inflation on those. But if not all of our rows. And as it relates to other ingredients or inputs into cost of sales, whether it be freight, logistics, we are seeing some purchase price variances that are outside of the normal ranges. So it's a very fluid situation.

And part of figuring out 2022 is really figuring out where is this headed? What's the magnitude? What's the magnitude of wage inflation that we're going to have to bake in. What is with all this. It's all the questions that is on in every newscast and financial discussion right now. So we're working through that like everyone to kind of figure out where this is heading, so we can kind of bake that in. But yes, it's going up. The magnitude and the timing of that is TBD.

Unidentified Participant: Okay. Great. And then with the reduced CapEx guidance, can you just touch on which areas you plan to pull back your spending in or delay investment in?

Alex Amezcuita: Yes. It's both on the manufacturing side and the technology side. Just simply getting to the number of projects that we have in the pipeline, it's simply a timing of getting to those projects. with the right timing. So that -- those are our main areas of investment, particularly on the nonmaintenance side, either in our manufacturing operations or in some of our technology initiatives.

Operator: Our next question will come from Ivan Feinseth with Tigress Financial.

Ivan Feinseth: And following up on your comments about the weight loss focus and health care focus in China, I mean it's an issue everywhere, even I think more so here. And if we weren't constantly talking about the COVID pandemic, I think we would be focused on this other pandemic of diabetes, which is also a major problem and very much diet related, and a major factor of health and the cost of health care.

And also it hasn't been talked about much, but 80% of the people that did die from COVID-related illnesses were obese. So it is a very important focus. And since you do have a focus on weight management, how do you see creating or getting -- tapping in some of that opportunity and helping people.

John DeSimone: Yes. I -- this is John, and I'll take that. Look, I think the importance of maintaining a healthy weight has never been more evident than it is now. I think the awareness is happening at all levels. So I think it's happening at the consumer level. I think it's happening in the press, I think it's happening at the governmental level. And without getting into the disease states that are caused by unhealthy weight or even the impact from COVID, I just think the awareness is an asset, right?

So it's not going to go away. It's going to be around for a long time, and I think there's going to be a lot of effort and energy put behind healthy weight. And I think we've hit a

great spot, not just because of our products, but I think how we go to market will be a big asset for us going forward.

John Agwunobi: I'll just add, if I might, that perhaps less so in the United States, but many other countries around the world or a number of countries around the world, the U.K., countries in Europe and in South and Central America, are -- from a policy perspective, beginning to focus increasingly on that link, the link between obesity and weight-related diseases and the impact of COVID on their health care systems and on their populations.

So I fully expect that once society moves through the bigger part of the pandemic, and most countries are now looking back at it and asking themselves what can we do to prevent such things from happening again in the future. There'll be initiatives. There'll be education. There'll be awareness. And I think a general kind of movement of populations towards a more self-care, weight managed -- or at least awareness of the importance of weight management. So we see all those things as positives for the future.

Ivan Feinseth: And then in your new product introduction plans, what kind of new areas should we or hopefully will we see new products?

John DeSimone: Yes. Ivan, I know this is important to you and it's important to us. I think new products is 1 of the most important things we do over the long term. I think you saw an increased effort that the company is going to put behind new products. At our Investor Day, we talked about our objective. Having new products represent 25% of sales in 5 years. It's only 14% now. I think big picture is, think of localizing product ideation.

Some of us localizing development, but certainly localizing ideation, allowing our regions in our top markets to have the resources necessary to go deep into their marketplace with products that matter to their consumers. And those could be flavor. They could be vegan. We launched a protein drink mix -- a vegan protein treat mix in Europe.

We did different flavors of lift off in Europe. We did different players have lift off in North America. We did different flavors in India, a lot of new products in India, sports products, too. So it's -- there's no one. I wish I could just want to make it easy for you. The reality is each marketplace has different needs. And our job and our goal is to provide those markets the resources necessary to fulfill those needs.

Operator: Our next question will come from (technical difficulty).

Unidentified Participant: I believe that was me. Just on the data metric, the number of new distributors, how much do you feel that here, especially in the North America market, given all the headlines here that we hear about the jobs going on field. How much of that is just the economy opening up the competitive landscape for people? And what's kind of the time horizon that you feel that, that kind of gets back to the normal cadence?

John DeSimone: Well, the last part of the question is probably the most difficult answer, which is the time here. I think we've been through different economic cycles over our last 40 years in the industry into a different economic so goes far beyond -- far further than that in the last 40 years. In the industry, other than short-term impact, it actually operates pretty well in good cycles and in bad cycles. But that transition from one to the other is where you see a little bit of a temporary, let's call it, hesitation.

And I think that's where we are now. But this industry has performed really well when unemployment was low. And I think one of the reasons, especially for Herbalife, is we've got products that people need, but it also performs really well and employment is high. So I think this is temporary. I think it's a transition more of a hesitation maybe is a better way to say it. We've seen it before. We saw in '08 and '09, and came back pretty quickly. It came back within a matter of a handful of quarters, and we're hopeful that would be the case again.

Unidentified Participant: Okay. And just in China, I realize that it is a small market. But how much of the change here -- I think we were down, what was 16% in the second quarter, were down [30%]. How much of that is really just the tough comp that you guys are up against in that market? Or do you feel that market has gotten worse for you?

John DeSimone: No. That market has been a challenge. That's not a tough comp issue, although the comps get easier, right? So when you start looking at Q4 and Q1 and 2, in China, it gets easier. And so I think China will be less of a drag on the overall company's results than it's been recently. But that market is being rebuilt for us in ways we talked about it earlier on the call. So I don't have to repeat it unless you want to hear it again.

Unidentified Participant: No. No, not at all.

Operator: And we do have a follow-up question from Stephanie Wissink with Jefferies.

Unidentified Participant: It's [Chris Neimans] on for Steph, again. I just wanted to quickly follow up on some of your commentary. And obviously, recognizing you're not commenting on '22 just yet, but is there any reason to believe you won't see a typical seasonal pattern sequentially from the fourth quarter in '21 to the first in '22?

Alex Amezcua: Yes. I mean, unfortunately, if I -- and we start pulling on that yarn, I'm into 2022. So I'm just going to have to defer until February, and when we can kind of get into that 2022 trends.

Operator: I'm showing no further questions in the queue at this time. I would now like to turn the call back over to Mr. John Agwunobi for any closing remarks.

John Agwunobi: Thank you very much. Thank you all for participating and for your, I think, very insightful questions. Before we close, I'd like to take a minute just to highlight our push into ESG as a company. We believe it relates strongly to our brand, to our principles, to our core. Reason for existence. This notion that we're about making people

healthy. And therefore, we believe it's important that we participate in the broader debate, the broader conversation about making society and the planet healthy. And as a result, we've made ESG an important -- actually a central part of our strategy on a go-forward basis.

It's always been that way. We've just not in the past, talked about it as much as -- we're going to hear us talking about it in the future. Speaking of which, we just released our first-ever global responsibility report. And it's kind of the first step on this journey and it kind of documents what we've done so far, and begins to lay down where we're going in the future.

I would urge you to take a look at that report. It highlights our achievements, our goals and our ongoing commitment to global responsibility. It's available if you're interested, on our Investor Relations website, which is [ir.herbalife.com](http://ir.herbalife.com). So that's where you'll find it. That's -- it's kind of -- we use the phrase ESG and global responsibility synonymously. One is the other, and nevertheless. So I would use to take a look at that.

I look forward to hearing you and having you join us on our next call when we speak again to you next quarter. Thank you.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.