

Herbalife Ltd. (Q4 2021 Earnings)

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Corporate Speakers:

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

Participants:

- Wendy Nicholson; Citigroup Inc.; MD & Head of Global Consumer Staples Research
- Steph Wissink; Jefferies LLC; Equity Analyst and MD
- Jeffrey Van Sinderen; B. Riley Securities, Inc.; Senior Analyst
- Unidentified Participant; Bank of America; Analyst
- Doug Lane; Lane Research; Principal & Director of Research
- Matthew Berry; Miller Value Partners; Investment Analyst
- Hale Holden; Barclays Bank PLC; MD

PRESENTATION

Operator: Good afternoon, and thank you for joining the Fourth Quarter and Full Year 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 Amezcuita, 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 annual report on Form 10-K. 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. Thank you for joining us on the call today.

2021 was another record year for Herbalife Nutrition. Even during this period of continued global uncertainty due to the pandemic, our entrepreneurial direct sales channel help consumers around the world pursue their nutrition and wellness goals by giving them access to our high-quality nutrition products.

For the full year, Demand for our nutrition products resulted in net sales of \$5.8 billion, an increase of 5% compared to the prior year and an annual record for the company. Our 3 largest regions: Asia Pacific, North America and EMEA, along with 37 individual markets, set annual net sales records.

Full year 2021 reported diluted earnings per share of \$4.13 and adjusted diluted earnings per share of \$4.79 was an increase of 49% and 29%, respectively, compared to the full year 2020.

Full year 2021 reported net income of \$447 million and adjusted EBITDA of \$874 million were both annual records for the company. For the full year, we averaged over 500,000 active sales leaders per month, a record for the company and an increase of 9% compared to 2020. We brought in 2.9 million new distributors and preferred customers, which was down just 1% compared to 2020 and actually up 31% compared to the more normalized 2019 year.

We continue to broaden our reach and attract new audiences in 2021, with 2/3 of our new distributor and preferred customers identifying as millennials or Gen Z. This younger demographic drives a high level of business activity by engaging with the business in new ways, including innovative Nutrition Club models and increased utilization of social media and digital.

Tools. Today, we also announced sales leader retention results for the last 12-month requalification period ending in January of 2022. This year, a record 68.9% of our sales leaders were retained, up from last year's prior record of 67.9%. We believe this result reflects the ongoing sustainability of our business and the attractive opportunity that we offer to our distributors.

Turning to the fourth quarter. Our net sales of \$1.3 billion decreased 7% compared to the fourth quarter of 2020. The Q4 year-over-year trend was impacted by a challenging comparison period. On a 2-year stack basis, we saw growth of 8% compared to the fourth quarter of 2019.

As I now go a little deeper into our regional performance, I shall touch on a few forward-looking key initiatives that we expect will contribute to a return to year-over-year growth in the back half of 2022.

The Asia Pacific region had another quarter of growth, up 5% compared to the prior year. The region was led by continued strength in India, which grew 33%. India is supported by strong underlying metrics, including 35% year-over-year growth in new distributors and in preferred members, as well as a 32% increase in active sales leaders. We're making investments in India to further support the market with a newly opened 150,000-plus square foot state-of-the-art center in a suburb of Bangalore. The new facility will allow us to accommodate planned growth in India as we go from the current level of 900 jobs to approximately 1,500 employees over the next 5 years.

This space will be home to a new local product research and development facility designed to accelerate new product launches. It will also contain a state-of-the-art quality control lab, a distributor meeting facility and a global business services center.

Looking at North America, we saw a decline in net sales of 3% in the quarter. This decline is up against a challenging prior year comparison period. However, the 2-year stacked growth rate in the region increased by approximately 29% compared to Q4 of 2019.

One area of continued strength in North America is our U.S. Nutrition Club business. We ended the year with over 12,000 Nutrition Club locations, an increase of more than 30% compared to the end of 2020. We are excited to see our sales force is energized by the return of in-person distributor events across the North America region, which began in October and continued with 36 separate in-person events so far in 2022.

Although several Q4 events were disrupted by the Omicron variant, attendance has been high for these events. And we believe the interactive discussions, the face-to-face team building and the social elements that are characteristic of our in-person events are all an important source of ideation, motivation and inspiration for our distributors.

Additionally, in North America, we're pleased to share that we recently acquired intellectual property that will serve as the basis of our first-ever vegan product line in the

region. It's expected to launch in early 2023. We believe this line will allow us to reach a brand-new market of savvy vegan consumers who are looking for certified vegan and organic nutrition products and dietary settlements.

EMEA experienced a challenging year-over-year comparison, resulting in a 7% decline. However, in the region, we actually saw a 9% year-over-year increase in the number of active sales leaders, which reflects the continued strength and the solid foundation of the EMEA business.

Looking at the 2-year stack in the region, EMEA grew 21% compared to the fourth quarter of 2019. Although the combined new distributor and preferred customer numbers are lower than Q4 of 2020, we saw growth of 23% compared to the more normalized 2019 comparison period.

We're in the early stages of a new project in the region designed to rearchitect our distributors e-retail and ordering platform. The goal of this initiative is ultimately to completely overhaul and modernize all our current ordering platforms with growth in mind. And we're currently in the vendor selection phase for this project and expect a new platform will be available for our distributors in the region in 2023.

The softness in our China business continued in Q4 as net sales declined 31% compared to the fourth quarter of 2020. Pandemic-related disruption contributed to challenges in attracting, training and retaining new entrants in the market. We remain confident that our strategic initiatives aimed at enhancing digital capabilities and daily consumption of Nutrition Clubs is going to end up benefiting our sales performance over time.

In Mexico, sales declined 5% in the quarter following 3 quarters of growth as the market was adversely impacted by intermittent pandemic-related disruption. Although our business wasn't directly impacted by any government pandemic-related restrictions, we do believe that a high case number during the quarter impacted attendance at our Nutrition Clubs.

Beginning this year in Mexico, we initiated a new weekly commission payment system that enables distributors to receive their commissions on a weekly basis instead of a monthly basis. This is a first of its kind payment system for Herbalife Nutrition, and it's an exciting opportunity for our sales force to receive their earnings more frequently and expedite their cash flow patterns. We will be analyzing this program's success, including its impact on distributor metrics and evaluate the possibility of extending it to additional markets in the future.

For the South and Central American region, the fourth quarter declined 14% year-over-year. The region was negatively impacted in markets such as Brazil and Colombia, where government restriction related to COVID-19 persisted throughout the quarter and impacted our Nutrition Club activity. More broadly in the region, the pandemic has contributed to macroeconomic challenges, which have impacted consumer spending.

Turning to our 2022 outlook. We're initiating net sales guidance to be in the range of flat to 6% growth for the year. We expect the progression of year-over-year comparisons in 2022 will shape the cadence of our quarter-to-quarter performance. We estimate first quarter net sales to decline in the range of down 10% to down 4%. However, we anticipate that the decline will improve in the second quarter. And as previously stated, we expect to return to year-over-year growth in the back half of the year.

Like many other companies, we expect the bottom line in 2022 to be impacted by unique inflationary pressures being felt across many markets. We are currently observing higher-than-usual cost increases in our supply chain with respect to raw materials, shipping costs and labor at our manufacturing facilities. This pressure, as well as cost increases expected due to a return to normalized levels of in-person distributor events and activities, are resulting in expected declines for adjusted earnings per share and adjusted EBITDA versus 2021.

We anticipate, however, that we can partially offset cost increases in our supply chain by executing on our pricing strategy, which is to increase prices in a way that keeps up with local CPI in each of our markets. In 2022, we don't expect pricing will fully offset all cost increases, which will result in a net headwind to gross profit of approximately 100 basis points for the full year.

Our efforts to improve margins through productivity and efficiency improvements within our business operations are also anticipated to help offset the near-term margin pressure that we face. One specific opportunity to achieve this is through our transformation program, first referenced on last quarter's call. This program is a structural realignment of both the front and back office, with the goal of ensuring our infrastructure processes and organizations are efficient and scalable to support our business growth. Once fully executed, we expect the first phase of our transformation program will result in ongoing incremental savings in SG&A of \$10 million to \$15 million per year.

We're also assessing a second phase of the program, which we're preliminarily planning for 2023 and anticipate that it will result in annualized savings in the same magnitude as Phase 1.

Alex will provide more details on our transformation program, as well as our annual and Q1 guidance in just a moment.

We continue to execute on our long-term growth strategy, including product innovation. And in 2021, regional product launches contributed to over 400 new SKUs in the company's portfolio. Approximately 100 of these new SKUs have been part of our fast-growing energy, sports and fitness category, which continue to lead our core product categories with an increase of 26% for the full year.

Our commitment to product is one of the factors that led us to be recently named by Euromonitor as the #1 brand in active and lifestyle nutrition, as well as the world's #1 health shake. The success of our company is rooted in the work and the dedication of not

only our distributors but also our employees. And I'm honored that Herbalife Nutrition was selected as one of America's best midsize employers and one of the top 10 employers in our industry in the 2022 Forbes rankings.

Each member of the Herbalife Nutrition team is valued, and their contributions are helping us expand access to good nutrition and economic opportunities all around the world. I'm confident that these positive impacts will only continue to grow in 2022 and beyond.

I'll now turn the call over to Alex.

Alex Amezcua: Thank you, John. As John mentioned, 2021 was a record year for Herbalife Nutrition across a number of metrics: net sales, net income, adjusted EBITDA, active sales leaders and the global retention of sales leaders are a few of the record set in 2021. However, we exited the fourth quarter with a net sales decrease of 7% compared to the fourth quarter in 2020. This was in line with our expectations for the quarter as we continue to comp 2020 results that benefited from the surge in demand for our nutrition products. However, comparing to the fourth quarter of 2019 prior to the pandemic, it represented an 8% increase on a 2-year stack.

Currency was a headwind to net sales in the quarter, representing a drag of approximately 110 basis points. Normalizing for currency, there was sequential improvement in the fourth quarter growth with local currency net sales declining 5.5% versus 7.6% year-over-year decline in the third quarter. This was driven by sequential improvement in volume growth of 5.7% year-over-year decline in the fourth quarter versus the 8.3% year-over-year decline in the third quarter. And on a 2-year stack basis, local currency net sales grew by 10.3% versus Q4 of 2019.

Reported gross margin for the fourth quarter of 77.5% decreased by approximately 60 basis points compared to the prior year. The decrease was largely driven by increased costs in our supply chain, as well as unfavorable impact of country mix. The decreases were partially offset by the impact of price increases.

Fourth quarter 2021 reported and adjusted SG&A as a percentage of net sales were 38.9% and 37.5%, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 32.1%, approximately 290 basis points unfavorable compared to the fourth quarter 2020.

During the fourth quarter of 2021, prior to the impact of Omicron, there was a significant increase in sales events and promotion costs versus the same period in 2020 as we began to return to an in-person events. This increase in nominal spend against lower net sales largely explains the variance in adjusted SG&A ex-China member payments for the fourth quarter of 2021.

For the fourth quarter, we reported net income of approximately \$38.2 million or \$0.37 per diluted share, adjusted earnings per share of \$0.57 and adjusted EBITDA of \$132

million were both within our expectations for the quarter. Currency was a tailwind of \$0.02 in the quarter versus the prior year.

Our adjusted diluted EPS and EBITDA figures continue to exclude items we consider to be outside of normal company operations. This quarter, you will notice we have a \$12.5 million carve-out accrual related to the Rogers lawsuit as the 2 parties have agreed on principal terms of a settlement. Please refer to our disclosure in our 10-K for additional information.

Now briefly touching on the full year 2021 results. Reported net sales of \$5.8 billion increased approximately 5% on a reported basis. Currency was an approximately 190 basis points tailwind for the full year, excluding Venezuela.

2021 reported diluted EPS of \$4.13 and adjusted diluted EPS of \$4.79 both benefited by approximately \$0.09 per share from foreign currency fluctuation. On a constant currency basis, adjusted earnings per share grew approximately 26% compared to full year 2020. Our full year adjusted tax rate of 19.4% improved approximately 330 basis points from our 2020 adjusted tax rate of 22.7%, primarily due to geographic mix of income.

Turning to our guidance for the full year and first quarter 2022. We expect the current trend of sequential top line improvement observed in the fourth quarter of 2021 to continue as we progress through 2022. The first quarter of 2022 top line comparison is anticipated to be more challenging than the fourth quarter of 2021 given the modest reacceleration in the first quarter of 2021 of the pandemic surge that began in mid-2020. We expect to return to growth in the second half of 2022, resulting in projected net sales of flat to 6% growth for the full year on a reported basis, which includes an approximate 160 basis point headwind due to currency.

Our gross profit and adjusted EBITDA margins for 2022 are expected to be pressured from currency, negative manufacturing variances and the ongoing cost of the shift to home delivery experienced at the onset of the pandemic. Further, we have seen significant increases in input costs, consistent with the news headlines related to raw materials, labor and freight costs.

To partially offset these margin pressures in the near term, we will continue to leverage our pricing power. We are also actively engaged in productivity improvement programs for both our front and back office operations through the transformation program John referenced earlier. This program involves the realignment of infrastructure to more effectively leverage our global shared service centers, investment in new technologies to increase efficiencies internally as well as better support distributors and customers and repositioning of certain strategic functions closer to the regions and markets they serve to better affect local initiatives.

We expect the first phase of this initiative will incur total pretax charges in SG&A in the range of \$25 million to \$30 million. We carved out approximately \$13 million of these charges in 2021, with most remaining expenses to be incurred throughout 2022. We

expect this first phase will result in annual incremental savings in the range of \$10 million to \$15 million with some savings beginning in 2022, increasing through 2023 with the full impact of the savings expected to begin in 2024. We are also assessing a second phase of the program to begin in 2023 with expected ongoing annualized savings in the same magnitude as Phase I.

As a result, for the full year, we are projecting our adjusted diluted EPS to be in the range of \$4.25 to \$4.75. This includes an approximate \$0.17 currency headwind. We are also providing full year adjusted EBITDA guidance in the range of \$785 million to \$845 million, which includes an approximate \$21 million headwind due to currency.

Our 2022 guidance includes the assumption of \$50 million in share repurchase per quarter, which reflects the minimum buyback amount we anticipate completing on a quarterly basis. We continue to project reliable cash flow from our business model. We believe there is value in guiding for a base level of consistent share repurchase, while leaving room for potential incremental opportunistic share repurchases to take place over the course of the year.

We have demonstrated this pattern of consistency during 2021 by repurchasing approximately \$100 million, \$160 million and \$100 million in the second, third and fourth quarter, respectively. We anticipate this pattern of consistency to continue in 2022.

For the first quarter, we estimate net sales to decline in the range of down 10% to down 4%, which includes an approximate 240 basis points currency headwind versus the prior year. We expect the progression of the year-over-year comparisons will lead to a decline in net sales for the first half of the year, followed by growth in the back half.

First quarter adjusted diluted EPS is expected to be in the range of \$0.80 to \$1, which includes a projected currency headwind of \$0.03 compared to the first quarter of 2021. Adjusted EBITDA is expected to be in the range of \$165 million to \$185 million.

Turning to cash flow, capital structure and our share repurchase activity. Our business continues to generate substantial cash flow. Operating cash flow of \$460 million for full year 2021 was down from 2020, primarily due to the impact of several unfavorable accounts related to year-over-year net sales declines. For 2022, we expect this to turn around in the second half of the year when the business returns to growth.

After completing just under \$1 billion in share repurchases during the year, at the end of 2021, we had just over \$600 million of cash on hand. As I mentioned earlier, we have included a minimum of \$50 million in share repurchases per quarter in our guidance for the year, which will cut into the approximately \$1.1 billion remaining on our 3-year share repurchase authorization.

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

QUESTIONS AND ANSWERS

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

Wendy Nicholson: I had a couple of questions. First, Alex, with regard to including the buyback in the earnings guidance, I think that's new and different for you, and I think it's actually great. But just with regard to the \$50 million worth of repurchases each quarter are you kind of committing to doing \$50 million each quarter? Or there is a chance you would do all \$200 million in the first quarter and then none for the rest of the year? So is it an annual number? Or is it literally a per quarter guide?

Alex Amezcuita: Wendy, the consistency is really the key here. So \$50 million a quarter is sort of how we see it profiling out. Now obviously, to the extent that we don't have a use of cash for any other initiatives and we have that cash on the balance sheet, that can opportunistically be greater than \$50 million. It could be \$100 million like we've been doing at least every quarter 2, 3 and 4 of 2021.

So we're just trying to create some level of baseline in our guidance projection given that we know that we're committed to the share repurchase program. And this really, we hope, gives investors and folks a sign of commitment to our share repurchase program beyond the words that we have historically provided.

Wendy Nicholson: Okay. That's fair. Well understood. And then I have 2 other questions, if that's okay. The first one is just with regard to pricing. I mean, obviously, every company we cover talks about how unprecedented and really unusual this cost environment is.

And I'm just wondering, #1, does that lead you to think about doing anything differently with regard to your pricing mechanisms? I know you've historically had these annual price increases scattered throughout the year tied to CPI. But is there anything in the current environment where you say, well, we maybe needed the second one of pricing or we need to do it more aggressively? Or anything on that front or still no strategy with regard to pricing is unchanged?

Alex Amezcuita: Yes, that's a great question. At present, we are sticking to our historical pricing strategies, which is very consistent with taking price consistent with each market's local CPI. With that said, like you said, we are at unprecedented times. There are unprecedented input cost on freight, on raw materials, just up and down labor.

So we are evaluating, is there more we can do? But obviously, we have to take the impact of that and how that might affect demand on those respective markets. And so balancing those 2 -- balancing those 2 objectives, preserving margin without hurting demand, that is something that we're going to have to take another strategic look at. But at present, we are just sticking to our historical practices.

Wendy Nicholson: Got it. Got it. And then I don't mean to hog the Q&A, but just one more question because I thought it was an interesting comment, John, that you made with regard to the Mexico -- I think it was Mexico where you said you're testing a potential change in the frequency of the payments of the commission. I thought that was very interesting.

But I just wondered, are there any incremental costs to that? Does it change the cadence of the business? Are there any risks or things I'm not thinking of yet because that's something new and different that I hadn't heard of before. And do you know if any of the other direct sellers are doing something similar?

John DeSimone: Yes. So this is John DeSimone. I'll take that question. So let me see if I can get it, I'll answer each of them. So there are no material risk that we believe. The cost is negligible to do it weekly. It doesn't impact the cadence of the business. What it really does is allow new distributors to get money in their pocket sooner, right?

So if -- basically, if I was getting commissioned before, I'd have to wait till the end of the month, and even then it would be 2 weeks before I get the check by the time I get being processed. And now we have visibility in the transaction much earlier, we can get people's money in their pocket sooner. And yes, there is a competitive reason to do it, too, because competitors do offer quicker commission payments than we have historically. So it's being tested in Mexico. If it's successful, which we believe it will be, then there's possibilities we take it elsewhere.

John Agwunobi: Well, I'll just add -- this is John A. I'll just add that there are many of our distributors in Mexico are very excited by this. I mean, they recognize that it just makes it easier in markets like Mexico, and it's going to be true, I think, around the world, to be able to have more money in your pocket quicker for cash flow purposes, to kind of engage those new distributors early on and get them seeing cash coming in, it commits them at an early point in their journey.

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

Steph Wissink: I wanted to ask a follow-up question on guidance. If you could just talk a little bit about the flat assumption versus the 6%? And what are the key attributes? And by market, if you're willing to give us some sense of that variance, particularly at that upper end? Does that assume that China influx or that you see persistence in the west as you've seen over the last couple of years?

Alex Amezcuita: Yes. I mean, we don't really guide market by market. I think generally speaking, the guidance, the 0% to 6% of what that reflects is the normal range that we provide at this time of the year. I don't think there's a different set of circumstances on the 6 that earning than the midpoint of the guidance where we expect an exceptional inflection point in China, et cetera.

That profiling out of the year is really probably the more, I would say, unique thing about '22 versus prior years and how we're starting this year still comping that surge in demand that was present in the first quarter and the first half of '21. And then as that surge in demand sort of normalize to some degree, in 2021, we expect to grow off of that more normalized base in the back half of the year.

So the guidance really is just more reflective of how we see the business progressing past the surge of demand that we saw on the onset of the pandemic.

Steph Wissink: Okay. That's helpful. And then my follow-up question to Wendy's earlier one on pricing. I'm just curious if you can give us maybe a slightly different lens into the supply chain. And how much of the cost basket you hedge or control versus how much of the costs you're buying kind of on a spot basis where you're seeing the volatility in some of the costing?

Alex Amezcuita: Yes. So there's a number of buckets in that question. So some of our big ingredients like soy, protein, isolate, I guess you could use the word hedging, but we lock in that price ahead of time. So our 2022 price on that major raw ingredient, that's locked in for the full year '22 at relatively attractive prices versus CPI and versus a lot of the input prices that you might see. It's in the low single digits of cost increase, '22 over '21. That's probably one of the brighter spots of our input cost.

However, many of the others or commodity-type prices, whether it's off dairy or resins or those types of things, and those are typically spot market buys for us. Further, A big piece of our input cost is freight. And whether it's freight in or freight out those costs have significantly escalated as well from all the demand issues that we're all familiar with.

So again, not something that you can really hedge or really lock in material prices. You're really subject to spot prices on all of that. So we're doing the best to sort of manage some of how to manage those input costs, particularly around the home delivery aspect, but that's going to be a little bit of a longer-term solution that we're going to look to see if we can have some productivity improvements on that in '22.

Steph Wissink: Okay. Great. My last question for you is just on the cash on hand and inventory levels. Are you feeling like you need to run your business with a bit higher inventory as a bit of an adjusting case protection? Or are you seeing some improvement in the fluidity of your supply where you think you can start to see working capital efficiency come back into the balance sheet?

Alex Amezcuita: Generally speaking, the inventory level has run a little bit above where we would have liked it. In some markets, it's strategic and it makes sense, but generally, as a company, what we experienced in '21, as you might recall, we took guidance up, all of our forecasts came up, our manufacturing plants ran hot and produced a lot of inventory that what turned out to be into the back half of '21, then created excess inventory.

So we're still working off of that inventory if you look on our balance sheet. The levels of inventory are significantly higher than where they were a year ago. And we'll continue to work those off as we get into 2022.

Obviously, that has a sort of a duplicate affect too on our manufacturing variances, which is a little bit of the -- if you look at our gross profit margin implied for '22, there's a little bit of a hit there as we're working off that inventory, we're going to have negative manufacturing variances at least through the first half of 2022.

Operator: Our next question comes from the line of Jeffrey Van Sinderen with B. Riley.

Jeffrey Van Sinderen: I just wanted to touch on, I guess, I would call it sort of the performance product umbrella. Under that umbrella, that line has really helped to attract a younger demographic and has been a relatively fast-growing segment. Can you give us a sense of how you're enhancing that product line going forward? I know you said, I think, you had 400 new SKUs last year. Maybe touch on growth expectations around that performance line for '22.

And ultimately, what level of concentration as part of your whole business seems feasible for the performance line over the longer term?

John Agwunobi: Yes. I might get you to -- this is John A. I might get you to repeat that second part of your question. Let me answer the first part first. It wasn't actually 400 new SKUs in that category. It was 100 new SKUs in that category. 400 overall around the world. Yes, we're really excited about our Sports Nutrition business. It's energy, it's protein, it's hydration. And it's actually, it's done very well on a number of fronts.

One, new SKUs, as we've indicated, we're expanding into -- we have a few flavors that we -- that are very core to the business, the flavors you would expect. But we're not only adding flavors, we're also going deeper in terms of the science and the types of products, things like BCAAs and different kinds of more specialized products in addition to our core product.

We've also expanded our energy line within that space. Quite dramatically, actually in a number of countries as well. New flavors, new formulations, new packet sizes as well. Gone from tablets to powders and so forth. So there's a lot of excitement. And yes, it does drive a younger demographic into the business.

When we launch our vegan line, I have no doubt we'll start to then go even further by taking began and organic into the sports line as well. For the full year, just to remind you, our sports business is up 26%. And I think we had similar growth in prior years. There was a time we would have added the caveat coming off a small base, but it's actually been growing quite well now for a number of years and becoming increasingly -- and I think this goes to the second part of your question, it's increasingly becoming an important part of our overall mix.

Now I will just add one last thing. It's a central part of our 5-year long-term strategy going forward. Our goal is candidly to become one of the top brands in Sports Nutrition around the world. And we have internal targets that we're gearing towards in a number of big markets. And indeed, we have a global target that we're trying to push for as well. I'll stop there and ask my colleague, John, he wants to add anything, he's shaking his head. So I'll leave it there unless I left one of your questions unanswered.

Jeffrey Van Sinderen: Okay. No. No, that was great. And then just as a follow-up to that, you mentioned the vegan line, and that, I guess, being integrated at least partially having some vegan products in the sports performance line, the vegan line, I'm guessing, also would be you'd have products in other perhaps in the weight control line or what have you that are also vegan. I think you have some vegan products now, if I'm not mistaken.

John Agwunobi: Yes. So we have a few individual vegan SKUs within broader lines, especially in our European market. But this is different. This is about us trying to develop a branded full end -- end-to-end line of products that are used for weight management, sports performance and a number of other kind of end usages inside that category.

So we're trying to develop a full line under its own brand within the Herbalife Nutrition family of brands. Our goal being initially to launch here in the U.S. early 2023 is our target and then to take it further a field around the world from there.

Jeffrey Van Sinderen: Okay. And then if I could just squeeze in 1 more. Just generally speaking, what do you think are the most important digital initiatives that you're hoping to, I guess, complete or make considerable headway on this year that could impact your business towards driving more sales.

John Agwunobi: Yes. I think, first of all, the whole digital kind of space in our strategy involves better supporting the way our distributors interact with their customers. So there's a number of different kind of, for lack of a better word, buckets of activity there. It will include things like efficiency plays for our distributors, productivity plays for our distributors. I think the one that the distributors have pushed us to move the fastest on, and it's underway, is an overall enhancement of their ability to e-retail to their customers.

And starting in Europe, but then quickly, I think, spreading around the world, we're going to do just that. I think the goal is not just to kind of launch something, but also to have a partnership with specialist -- specialty vendors in the space that allows us to keep up with the times and so to speak. In other words, the vendor will be responsible for enhancing the functions of the e-retail side over time. but it's principally focused on the work that our distributors do.

Operator: Our next question comes from the line of William Reuter with Bank of America.

Unidentified Participant: This is Mary Ann for Bill. Can you touch on where you're seeing the most significant inflation between raw materials, freight and labor? And if

availability of any raw materials have been a challenge or if it's more just that the costs are higher?

Alex Amezcuita: Yes, it's more on just the pricing and the pricing variances from prior year. The basket of goods, I wouldn't say that are disproportionate in one or the other. I mentioned earlier in the call on some of our raws we're doing quite well on. But the overall basket has significantly increased.

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

Doug Lane: Doug, can you -- you mentioned COVID several times in your comments, which is understandable given where we are. But can you drill down a little bit more on what in particular or how in particular COVID is impacting your ability to go to market? Is it the supply chain? Is it big events? Is it Nutrition Club attendance? I mean, just where exactly is COVID impacting your business these days?

John Agwunobi: Yes. So Doug, obviously, because we're in 94 countries, we're in all of the big regions around the world, the answer is it depends on which region you're talking about, right? But I'll try to give you a little more color.

So clearly, I think in many of our markets that are Nutrition Club-based markets like Mexico, and to a lesser degree, the U.S. We found that during the peak of COVID, customers didn't want to go to the Nutrition Club. And in some cases, governments actually prevented us from opening Nutrition Clubs. I remember Nutrition Clubs in India, for a while they were shut down.

However, for most of those markets today, that surge in COVID has passed by. And the Nutrition Clubs are rapidly reopening, customers are showing back up at their favorite mini community, the Nutrition Club on the corner and things are beginning to get back to normal. So that's one area.

The second -- I'm talking about -- there were some positives, obviously, but let's speak to the negatives here a little bit, because I think that's what your question was about. The second area, obviously, was, I think, as you point out, supply chain.

And the supply chain impacts of COVID, I think it's safe to say because the entire industry is facing them, on the front end, in other words, inbound, but also on the outbound side has been impacted, I think, in ways that are going to take a little longer to bounce back.

Things like shipping, containers, freight in and out, the cost of freight, those kinds of things, I think, are going to take a little longer to heal, to get back to normal. Even though for the most part, I think the impact of COVID in the West has diminished significantly.

There's still a lot of COVID on the east side of those supply chains. If you look at what's happening in Hong Kong, to a lesser degree now, but who knows what will happen in the

future in China. There's -- and beyond in Asia. There's some pretty -- I don't think Omicron has peaked yet in many of those markets. The good thing about Omicron is if the East was anything -- sorry, the West was anything to go by, it should pass fairly quickly, right? 2 months, 3 months, 4 months for the peak to pass. So that would be the second area.

The last thing I would just say is on meetings and in-person meetings. They are the lifeblood of our business. We're a relationship business. We rely heavily on people teaching others, inspiring others and nurturing others, whether it be the customer who's trying to lose weight. She needs her coach.

And she needs her coach right there with her as she's working out or as she's walking -- setting up her plan. Or on the business opportunity side, where you have young entrepreneurs trying to build a business. And the need to learn from the more experienced distributors that have gone before them, they do all of that in these events. And we are so excited.

One of the biggest positives that we sense as a company is the fact that, as a company, in general, we are reopening. In-person events are happening again. We have a schedule of events through the rest of the year that show dramatic acceleration. I'm going to attend many of them, as will many of our executives all around the world. So we're feeling quite good about that. The one kind of, I think, question mark would be how long does it take for APAC to get through its Omicron wave, because they, too, are an important part of that process.

Doug Lane: I know that you had to go virtual with some events in recent months. How long do you think before -- I mean, I guess, you can't predict COVID, I get that. But just from your planning standpoint, are you looking to be pretty much fully up and running with your regional conventions and events by the second half of this year, for instance?

John Agwunobi: In speaking to all of our leaders around the world, almost every market expects to try to have in-person events by the end of the year. There'll be a mix of transition between now and then. And I have no doubt we're going to hold on to many of the positive aspects of the virtual world that we've all learned to live in. We're going to layer that on top of the in-person events as they begin to then kind of happen around the world.

So the answer to your question is we fully expect to have most of our countries hosting some kind of live events by the end of this year with the trajectory between here and there that kind of ramps up pretty dramatically as COVID exits.

Doug Lane: Okay. That's very helpful. Just one last question. You're a big global company. Can you give us how you think about what you can possibly build or how you're thinking about it in your forecast with the geopolitics in Russia and Brazil going on?

John Agwunobi: Yes. Let me throw this one to John DeSimone, our President, who worked so closely with the markets.

John DeSimone: Doug. So look, just like every other company has got business in those markets, we're putting contingency plans together. We have distributors and customers who rely on this company and there are -- we're in 95 countries.

We have supply chains coming from different regions that I think can get product into those countries depending on what the circumstances are. They don't have to come from the U.S. The relations with the U.S. isn't good. Really, the biggest risk is more on the banking side. Can we get money out? And right now, we expect that we'll be able to. You never know. But we've got continue to see plans in place that we're hopeful we'll manage at least any kind of reasonable outcomes from the events.

And look, with Ukraine itself, just to give you a perspective, it's 10 million to 15 million volume points a quarter. It's not big. That's probably where the biggest risk lies. I mean, there's risk in Russia, there's risk in Brazil, but the biggest risk is probably in the Ukraine, and it's not a material country to us.

Operator: Our next question comes from the line of Matthew Berry with Miller Value Partners.

Matthew Berry: Could I get -- I know you don't provide guidance, but could you maybe provide any thoughts on the big step down that you're expecting in the first quarter of this year? And obviously, at this point, you have almost 2 months of data that you're reading off. So that's a big step down, you're minus 10% to minus 4%, I think, on the volume point.

So what's really driving that? Is that the number of sales leaders that you've got out there? Is it the number of volume points that those sales leaders are producing? Any sort of additional data on what you're seeing in the business that's driving that would be really helpful.

Alex Amezcuita: Yes. So it's a great question. And so this is a little bit the nuances of the profiling. So clearly, in Q4, we had sequential growth over Q3. In Q1, the health and strength of the business continues to actually be stronger. Now with that said, like the numbers that you called out, if you look at the midpoint of the guidance, that is either slightly to the downside or flat with where we were in Q4. And that's less about the current state of the business and more about what the business is comping off of.

So if you go back to the first quarter of '21, we reaccelerated with the surge that we experienced in the middle of 2020 from the pandemic. So if you're looking at some of those top line numbers, and you're saying, "Hey, well, this isn't getting better than Q4." Actually, the health of the business is getting better, but it's comping off of a more difficult comp. So that's -- when you look at that, you have to kind of put some of that in perspective.

So if you go back, for example, and you go back to the first quarter of '21, we reaccelerated with 19% net sales growth in the first quarter of last year. right? So we're comping off of a 19% net sales growth year -- quarter versus 15.6% in the fourth quarter. Does that make sense?

Matthew Berry: That makes sense. I guess this is something we could probably get into a little more detail on offline because there's definitely a few moving parts. But okay, I appreciate the help on that, Alex.

Alex Amezcuita: Sure thing.

Operator: Our next question comes from the line of Hale Holden with Barclays.

Hale Holden: I just had a couple of quick housekeeping ones. Alex, would it be possible for you to also give us a CapEx estimate for this year?

Alex Amezcuita: Sure. Our CapEx guidance is \$200 million in the midpoint. And again, that's getting to some of these digital programs that John A. mentioned, too, some of the technology initiatives to help on the front end of the business to -- that's supporting that slightly elevated number from where we have been historically.

Hale Holden: The second question is on the EBITDA guide that you gave. Does that include or exclude the efficiency in cost savings charges that you're doing this year that you called out in SG&A?

Alex Amezcuita: Yes. So the charges -- the types of charges that we excluded in 2021 and that I mentioned to the tune of \$25 million to \$30 million, that total basket is not in the EBITDA number. We expect that will be carved out in that EBITDA guide for 2022.

Hale Holden: Great. And then I got a big picture one, which is there has been a lot of discussion on, as you emerge from the pandemic and it becomes endemic, weight loss and healthy behaviors are maybe less of a focus than they probably should be. And I was wondering if you were seeing that at all from your sales performance or if that was a concern for you guys?

John Agwunobi: It's not a concern, and we're not seeing it in our sales performance at all. In fact, we believe there's going to be increased demand beyond the pandemic. A couple of things. First of all, I think the pandemic has conditioned a lot of people to focus on their health and on their immunity and on their ability to fight external threats from viruses and bacteria and the harms of the world.

The second reason is, unfortunately, many people on lockdown gained weight. And we think that once they all emerge and get active again, go back to work and so forth, there's going to be, we believe, an increased demand for weight management as people try to get healthy again, after 2 years of sitting on their couch.

Lastly, I would just kind of point to the fact that there are long-term trends that have not been impacted by the pandemic. The obesity epidemic continues to be a major issue. It was for the 5 years prior to the pandemic, and we believe will be the 5 years that follow the pandemic.

And then there's been a surge, more subtle, unless you're in the industry because it's not a headline news thing, but people are -- there's been a big trend towards sports outdoor activities, healthy living and especially in the younger demographics. And that surge, as evidenced by the increase in our Sports Nutrition business, up 26% in the prior year. We believe that, that's going to continue. There's no indication that it's going to slow down, at least from the data we see.

Operator: Thank you. I would now like to turn the call back over to CEO, John Agwunobi, for closing remarks.

John Agwunobi: Thank you. We've gone a little longer in our call today. Obviously, end of year, a lot of complicated issues with the pandemic and so forth. I'm glad we did because we had an opportunity to kind of go a little deeper than we might typically have gone with all of you. Thank you for your questions and for attending.

I'll end quickly, therefore, by saying, listen, we have a long-term strategy that we're very confident in, we're very proud of. It's working. It's delivering. And it's going to continue to deliver as we look out into the future.

We've given you guidance for 2022. And if you take those midpoints, you'll recognize that our share repurchase program is an important part of our tactical play for the rest of this year. As Alex pointed out, we're going to try to make it a lot more consistent, at least on its base, and then we'll be opportunistic on top of that as we move forward.

The market continues to look for -- and when I say the market, I mean, our customers and the distributors that support them, continue to look for the kinds of products that we sell all around the world. Demand continues to be something that we're very pleased to see. And as we profile out 2022 and beyond, we are feeling really good about our future as a company.

I'll leave it at that, and say thank you for attending. Look forward to speaking with all of you on the road at some point.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.