

Herbalife Limited (Q4 2024 Earnings)

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Corporate Speakers

- Michael Johnson; Herbalife Limited; Chairman and Chief Executive Officer
- Stephan Gratziani; Herbalife Limited; President
- John DeSimone; Herbalife Limited; Chief Financial Officer
- Erin Banyas; Herbalife Limited; Vice President and Head of Investor Relations

Participants

- Robert Rigby; Bank of America; Credit Research Analyst
- Linda Bolton-Weiser; D.A. Davidson; Managing Director
- John Baumgartner; Mizuho Securities; Managing Director
- Hale Holden; Barclays; Head of U.S. Fundamental Credit Research
- Karru Martinson; Jefferies; Managing Director
- Douglas Lane; Water Tower Research; Head of Consumer Products

PRESENTATION

Operator^ Good afternoon. And thank you for joining the Fourth Quarter and Full Year 2024 Earnings Conference Call for Herbalife Ltd. (Operator Instructions) As a reminder today's conference call is being recorded.

I would now like to turn the call over to Erin Banyas, Vice President and Head of Investor Relations, to begin today's call.

Erin Banyas^ Thank you. And good afternoon, good evening, everyone. Joining us today are Michael Johnson, our Chairman and Chief Executive Officer; Stephan Gratziani, our President; and John DeSimone, our Chief Financial Officer.

Before we begin today's call, I would like to direct you to the cautionary statement regarding forward-looking statements on Page 2 of our presentation and in our earnings release issued earlier today, which are both available under the Investor Relations section of our website.

The presentation and earnings release include a discussion of some of the more important factors that could cause results to differ from those expressed in any forward-looking statement within the meaning of the Private Securities Litigation Reform Act of 1995.

As is customary, the content of today's call and presentation will be governed by this language. In addition, during today's call we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures exclude certain unusual or nonrecurring items that management believes impact the comparability of the periods referenced.

Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures and the reconciliations to the most directly comparable GAAP measure. And with that, I will now turn the call over to Chairman and CEO, Michael Johnson.

Michael Johnson^ Thanks, Erin. And good afternoon, everyone. And thank you for joining us today. Today I have three pieces of good news to share with you.

First, something I'm very excited about, the appointment of Stephan Gratziani as the CEO of Herbalife effective May 1. Next, I'm equally excited to announce that Rob Levy will be stepping in the role of President of Worldwide Markets.

And our third piece of good news is our positive financial results and improving distributor trends. Let's start with the Q4 results, which were excellent. We delivered net sales growth on a constant currency basis for both the fourth quarter and the full year. On a reported basis, net sales for the fourth quarter were \$1.2 billion, slightly below the fourth quarter of 2023. FX moved a lot during the fourth quarter.

Had FX rates in November and December remained consistent with the FX rates inherent in our fourth quarter guidance, net sales for the fourth quarter would have been up 1% year-over-year and at the end of a very high end of guidance. In addition to our good sales results in the fourth quarter, we also delivered strong adjusted EBITDA results, which significantly exceeded guidance in prior year.

During 2024, we also paid down \$250 million in debt and reduced our total leverage ratio to 3.2x from 3.9x at the end of last year. John will go into more detail about the results and 2025 guidance later on the call. When I returned Herbalife in October of 2022 for the third time as CEO, I promised the Board and myself to focus deeply and thoroughly on how we best go about succession and appoint the next CEO of this great company.

Herbalife operates in over 90 markets as a public company in the multilevel direct selling business. We offer science-backed high-quality nutrition and skin care products and a business opportunity through Herbalife's independent distributors that generated \$5 billion in revenue and \$635 million in adjusted EBITDA in 2024.

We are the second largest direct selling company in the world. The nature of our global business and distribution method creates enormous opportunities and unique challenges. When I joined Herbalife in 2003 from Disney, I had zero experience in direct selling.

My skill set was in retail, marketing, branding and global business management. My learning curve here was steep. The early days as a private equity company afforded me the opportunity to adapt my skills to Herbalife's business.

I made my share of mistakes, but I also set a vision for the brand, product and distribution that saw us grow in sales and open new markets. The best distribution ideas came from those closest to the markets, our Herbalife independent distributors.

Today's market has changed from where I started 22 years ago next month. Distributors then and now are key to our growth and success. Knowing what makes our distributors tick and setting in motion the vision and strategy to offer distributors and customers of Herbalife a health and wellness community and a platform to operate from is our next frontier. Years ago, I entertained the idea of bringing the distributor into the executive team of Herbalife. Mark Hughes was the first Herbalife distributor and the first CEO of Herbalife.

Mark's understanding of our distributors and business got Herbalife off the ground and running in 1980. Today we are moving forward with our second distributor, should I say former distributor, as our new CEO, Stephan Gratziani.

Stephan, as I said earlier, will formally begin his tenure as CEO on May 1. This journey as CEO began 33.5 years ago when Stephan started his Herbalife distributorship in France. His technical skills, his grit and his gut in combination with his fraternal sensibility saw him climb and create one of the largest Herbalife worldwide distributorships.

After my unsuccessful attempt in 2011, we succeeded in bringing Stephan aboard as Chief Strategy Officer in 2023. The impact was immediate. Through his and his colleagues' implementation, we reversed the post-COVID years recruiting decline, reduced the decline in our topline, and alongside the work of John DeSimone and our finance team, greatly improved our income and solidified our balance sheet.

As Stephan rose to President last year and worked with John and the team to define and soon implement a robust transformative digital strategy, the rise to CEO was a matter of time. The Board and I carefully thought through this decision.

Distributors and employees worldwide were important factors in our thinking. We know that we have the right CEO at the right time to build on our vision of being the world's premier health and wellness company, community and platform. I'm super honored to welcome Stephan as Herbalife's next CEO.

I'm also honored to announce Rob Levy has accepted the new role of President of Worldwide Markets. Rob, a good friend, has been with Herbalife for 30 years and has at one time or another run every one of our regions.

He's played a key role in opening more than 35 markets around the world, has been responsible for numerous corporate functions including our distributor-facing businesses, sales and marketing, and distributor operations. Rob is respected in the industry and is committed to the success of our distributors and our employees. He's been an integral part of our leadership team and a trusted adviser to Stephan and to me. He's known and respected by distributors around the world. And just like Stephan, he's the right person at the right time and there's no one better prepared and more capable of working alongside Stephan to lead Herbalife into the future.

I'm personally excited to continue my involvement with Herbalife and looking forward to transitioning in the role as Executive Chairman and continue my role on the Board of Directors where I will lead the Board to support our executive team and focus on shareholder value.

As I mentioned earlier, our company founder, Mark Hughes, was a distributor who had a vision to improve the lives of people around the world. This month marks our 45th anniversary, and it's only fitting we're announcing the appointment of a former distributor as our new CEO and a President who worked directly with Mark.

Our company is in a much better position than it's been in a long time. And under Stephan and Rob and our team's leadership, we have an incredibly bright future. Now let me turn it over to our incoming CEO. Stephan, take it away.

Stephan Gratziani^ Thank you, Michael. It's a privilege and an honor to be stepping into the role of CEO, and I'm excited to continue our partnership as you transition into the role of Executive Chairman. Working alongside you, Rob, and our incredible team of executives, our distributor leaders and employees, has reinforced what I already knew as a distributor. The passion, dedication and strength of our Herbalife company and community is unmatched.

As the world's largest publicly traded direct sales nutrition company, the impact we have made in the world over the last 45 years is truly incredible. Our scale and reach globally puts us at a unique position for the future, and that future is to become one of the world's most important health and wellness platforms.

But before we talk more about that, let's take a look at the fourth quarter and full year distributor trends. The initiatives we launched in 2024 to rebuild our distributor base and activity levels are showing positive results.

As we look at Slide 6, our positive trajectory continued with the key takeaways being a continuation of those I highlighted last quarter. With the exception of China, new distributor growth continued across all markets.

Starting with the chart on the left, you can see new distributor growth was up 22% year-over-year in Q4, our third consecutive quarter of growth, and up 11% for the full year compared to 2023. Moving to the chart on the top right, you can see that all levels of our distributor leadership are active in bringing in new distributors, especially at the President team level as well as the MIL team and GET team levels.

These individuals typically have the longest tenure, have built the largest organizations, and know how best to support new distributors. Again, we are very encouraged by the level of engagement at all levels in the marketing plan. Moving to the chart at the bottom of the slide, you see the year-over-year quarterly change in the total number of active non-sales leaders, which also includes members in markets without separate distributor and preferred customer programs.

This summary is based on the regional supplemental metrics posted under the Investor Relations section of our website. As you can see, Q4 marked our third consecutive quarter of year-over-year growth in our worldwide total active non-sales leaders, up double digits, following three years of quarterly declines.

I want to reiterate what we have said in the past that growth in active non-sales leaders is the foundation that leads to new sales leader growth. Then ultimately, sales volume growth. And in the fourth quarter, we achieved the next milestone with year-over-year growth in the number of worldwide average active sales leaders following 10 quarters of year-over-year declines.

In addition, in both the fourth quarter and full year, we achieved net sales growth on a constant currency basis. And as you've seen in the guidance we provided today, we are projecting net sales growth on a constant currency basis in 2025. Things are happening according to plan.

Our business is geographically diverse, each region with its own unique opportunities and challenges, which we are addressing with market optimization strategies like we did in Latin America. Some regions are further ahead in the plan, while others are in the beginning phases.

Quarter-by-quarter, we are making steady progress as we said we would. These positive trends are primarily driven by the multiple initiatives we've put into place since the beginning of 2024 including expanding and elevating our distributor training support and motivation through programs like the Herbalife Premier League, Diamond Development Mastermind, DMO master classes and leadership training sessions with Eric Worre.

We believe these initiatives have not only contributed to increased recruiting, but also supported an increase in sales leader retention, which grew from 68.3% last year to 70.3% this year. As you can see, we're making progress in delivering on what we said we would do. These initiatives are yielding positive results, but we're not stopping here.

We understand there's a broader question about the relevance of our business model and its future in the rapidly changing world we live in. As a distributor who built and grew an international business for 32 years, I had to personally navigate and lead my organization through changes in technology, business models, changing consumer trends and industry competition.

Since joining the company as an executive in August of 2023, we've never been more focused on how to leverage industry disruptors. From how and where consumers want to purchase products in today's world, to an ever-evolving digital and gig economy, to emerging health and wellness products, trends and services including GLP-1s. And what I know is that in addition to all of the initiatives we've rolled out, there's a lot happening behind the scenes to ensure we leverage and build upon these disruptors.

At the beginning of my remarks, I said Herbalife is destined to become one of the world's most important health and wellness platforms. As we align the entire company and our distributors around this vision, you will start to see this expressed more and more through our digital tech stack, our products and our services. There are many things that differentiate Herbalife from other companies in the direct selling industry.

It's not only our size and reach, or that we have approximately 65,000 physical locations around the world. The big differentiator is the fact that we have millions of distributors whose passion is to make an impact on the health and well-being of their families, customers and communities.

Our executive team's mission is to make sure we build the platform that enables them to make that impact so they can do it at a scale that is unprecedented, not only in the direct selling industry, but in the health and wellness industry overall.

I want to close by saying my years as a distributor were nothing short of life changing. It was Herbalife that gave me an entrepreneurial opportunity to build a life I never imagined was possible.

It's one of the reasons I do what I do every day, to make sure others have the same opportunity to find Herbalife, improve their health and wellness, have a thriving, successful business, and live their best lives.

As CEO, I'll continue to focus our efforts on realizing our vision of becoming the world's premier health and wellness company, community and platform. Our belief in our business model and the value, service and opportunity it provides has never been stronger. I'll turn it over to John DeSimone, who will now cover our financial results.

John DeSimone^ Thank you, Stephan. I'll begin with our Q4 financial highlights on Slide 8. Please refer to our presentation appendix for our full year financial highlights. We are very pleased with our Q4 2024 results. Both net sales and adjusted EBITDA were strong and would have been even stronger if not for the movement in currencies over the last few months. Net sales were \$1.2 billion, down 0.6% versus Q4 of last year.

However on a constant currency basis, net sales were up 2.7% versus Q4 of 2023. And further demonstrating the strength of our fourth quarter results, when we provided our guidance at the end of October, our FX assumptions were based on the average daily exchange rates for the first two weeks of October 2024.

Had FX rates in November and December remained consistent with the rates inherent in our Q4 guidance, net sales for the fourth quarter would have been approximately \$1.23 billion or a 1% increase over Q4 of 2023, which would have been at the very high end of our guidance range of down 3% to up 1% year-over-year.

Currency movements, especially the movement over the past few months, is a theme that carries into our 2025 outlook, which I'll talk more about a little later. Full year 2024 net sales were \$5 billion, down 1.4% year-over-year on a reported basis. On a constant currency basis, net sales were up 1.2% for the year.

Our net sales are relatively stable, and we've had growth in both the fourth quarter and full year on a constant currency basis, and we remain focused on driving sustainable net sales growth. Moving to adjusted EBITDA, our fourth quarter adjusted EBITDA was \$150 million and above our guidance range of \$105 million to \$135 million. Adjusted EBITDA margin was 12.4%, up 340 basis points versus Q4 of 2023, primarily driven by our restructuring and other cost savings initiatives implemented in 2024.

Full year adjusted EBITDA was \$635 million and significantly exceeded last year's adjusted EBITDA of \$571 million. Additionally, our adjusted EBITDA margin of 12.7% was up 140 basis

points versus 2023. CapEx for the fourth quarter was \$26 million, at the low end of our guidance range of \$25 million to \$45 million. And capitalized SaaS implementation costs were approximately \$3 million in the quarter. Q4 gross profit margin improved to 77.8%, up 150 basis points compared to the fourth quarter of last year.

The increase in gross profit margin was primarily due to price actions we took throughout the year, which drove approximately 80 basis points of benefit, along with approximately 30 basis points of favorability from reduced input costs, mainly related to manufacturing efficiencies and an additional 30 basis points from the benefit of lower inventory write-downs.

Fourth quarter net income of \$178 million includes \$147 million of noncash net deferred income tax benefits related to changes we made to our corporate entity structure during the fourth quarter, which also included intra-entity transfers of intellectual property to one of our European subsidiaries.

These changes were made as part of our ongoing business transformation initiatives and to facilitate efficient internal cash movement. These noncash net deferred income tax benefits are excluded from our adjusted results. And going forward in future periods, the net noncash deferred tax effects related to this benefit will also be excluded from the adjusted results.

Q4 diluted EPS of \$1.74 includes \$1.44 favorable impact related to the noncash net deferred income tax benefit recognized in the quarter. Adjusted diluted EPS of \$0.36 includes a \$0.07 FX headwind versus Q4 of 2023.

Operating cash flows for the quarter were \$70 million, down approximately \$27 million from the fourth quarter of 2023, reflecting elevated interest payments in 2024, primarily driven by the first semiannual interest payment on the 2029 12.25% notes in October.

In addition, last year's fourth quarter operating cash flow included a \$30 million refund received in connection with the Korean custom duty settlement. We ended the year with our revolving credit facility fully undrawn. Credit agreement EBITDA for the fourth quarter was \$164 million, and we further reduced our total leverage ratio to 3.2x as of December 31 from 3.9x at the end of December 2023.

For additional details regarding the adjustments between adjusted EBITDA and credit agreement EBITDA, as well as the calculation of our total leverage ratio, please refer to our presentation appendix in the earnings press release. Turning to Slide 9, we see the drivers of our fourth quarter net sales performance year-over-year.

On a reported basis, fourth quarter net sales were down 0.6% year-over-year, while up 2.7% on a constant currency basis. Overall volumes were down 0.7% year-over-year, which was more than offset by approximately \$44 million of pricing benefits.

FX was an approximately \$40 million headwind year-over-year or 330 basis points. And as I highlighted earlier, the surge in the U.S. dollar in November and December drove an approximately 160 basis point FX headwind between our reported net sales and our expectations communicated in October for the quarter. Turning to Slide 10, we have the regional net sales

results for the fourth quarter. Latin America, EMEA and Asia Pacific all reported net sales growth in the quarter on both a reported and local currency basis.

In Latin America, net sales were up 2% on a reported basis and up 15% on a local currency basis. Favorable year-over-year net pricing and increased volumes were partially offset by unfavorable FX headwinds, primarily due to the Mexican peso and the continued devaluation of the Argentine peso.

Mexico's net sales were up 2% year-over-year on a reported basis and up 16% on a local currency basis, driven by higher volumes in 2024 and a 5.25% price increase in March of 2024. The improvement in volumes is partially due to a softer comp versus 2023 as a result of the importation delays we experienced in Mexico in the second half of last year due to the government delaying timely approval of importation permits.

We believe this drove approximately \$11 million of lower net sales in Q4 of 2023. EMEA net sales were up 3% year-over-year on a reported basis and local currency net sales up 6%. Favorable year-over-year pricing and sales mix were partially offset by volume declines and unfavorable FX headwinds. Year-over-year results were generally mixed across the many markets in the region.

In Asia Pacific, net sales were up 1% on a reported basis and up 3% on a local currency basis. Favorable year-over-year pricing was partially offset by volume and unfavorable FX. In India, net sales were up 3% on a reported basis and up 4% on a local currency basis, primarily due to favorable pricing on nearly flat volumes year-over-year.

In November 2024, the market implemented a 3% price increase. In North America, while net sales were down 3% year-over-year, this is the third consecutive quarter we have seen an improvement in the quarterly year-over-year trends.

For the fourth quarter, favorable year-over-year pricing in the region was more than offset by lower volumes. Volume points were down 4% year-over-year or down 6% excluding the 10% volume point adjustment we implemented in mid-December 2024 on most products in the U.S. and Puerto Rico for strategic reasons.

Because of the recent changes in volume points in some of our markets and the possibility for additional changes in other markets, volume point metric isn't as useful as it once was. In future periods, it is likely we will stop reporting volume points and focus primarily on net sales.

However we will continue to provide the impact that volume changes have on our year-over-year net sales comparisons. China net sales decreased 20% year-over-year on both a reported and local currency basis, driven by volume declines.

Moving to Slide 11, we see the drivers of the \$41 million or 38% year-over-year increase in fourth quarter adjusted EBITDA. Q4 adjusted EBITDA was strong at \$150 million with a margin of 12.4%, up 340 basis points year-over-year.

Looking at the bridge, the majority of the margin improvement can be seen in the benefit from price increases, manufacturing efficiencies, and a number of other cost savings initiatives implemented during 2024. This is partially offset by lower volumes, unfavorable sales mix, and year-over-year FX movements, which drove an approximately \$12 million reduction in adjusted EBITDA year-over-year. Moving to Slide 12, I'll provide an update on our capital structure. During 2024, we reduced our debt by nearly \$250 million. As of December 31, our revolving credit facility remained fully undrawn.

As I stated earlier, we further reduced our total leverage ratio to 3.2x as of December 31, down from 3.9x as of December 31, 2023, and we believe we are on track to reduce our total leverage ratio to 3x by the end of 2025.

As we communicated on our Q2 earnings call of last year, it is our intent to pay down \$1 billion of debt by the end of 2028. At that time the time I made that comment, our principal amount of debt outstanding was \$2.4 billion. Therefore, we have a target to reduce our debt to \$1.4 billion by the end of 2028. We made steady progress on that objective in 2024, and we further reduced our debt since year-end.

As we indicated as part of our plan on our third quarter earnings call last week we redeemed \$65 million of the 2025 notes for an aggregate purchase price of approximately \$67 million, which included \$2 million of accrued and unpaid interest, leaving a balance of \$197 million outstanding on the 2025 notes, which we plan to repay at or prior to the September 2025 maturity.

Moving to Slide 13, we will review our outlook for the first quarter and full year 2025. Given where FX rates are trending today, we expect FX to be a significant headwind for us in 2025, a much greater headwind than it would have been even a quarter ago.

Therefore, in addition to our usual net sales and adjusted EBITDA guidance, which uses the average exchange rates for the first three weeks of January 2025, we are also providing net sales and adjusted EBITDA guidance at constant currency for the respective periods.

For the first quarter, we expect net sales to be in the range of down 1.5% to down 5.5% year-over-year, which includes an approximate 550 basis point headwind from currency. On a constant currency basis, we expect net sales to be flat to up 4% year-over-year in Q1.

We expect adjusted EBITDA to be in the range of \$140 million to \$150 million, while in the range of \$158 million to \$168 million on a constant currency basis. Our planned capital expenditures for the first quarter are in the range of \$30 million to \$40.

And while we do not provide cash flow guidance, keep in mind the first quarter tends to be the lowest cash flow quarter of the year since it is when we pay the Mark Hughes Annual Distributor bonuses as well as employee bonuses. Moving to our full year guidance, currency has an approximately \$200 million negative impact to our 2025 net sales and approximately \$70 million negative impact to our 2025 adjusted EBITDA.

We expect full year net sales to be in the range of down 3% to up 3% year-over-year, whereas on a constant currency basis, we expect net sales to be up 1% to up 7% year-over-year. We expect

adjusted EBITDA to be in the range of \$600 million to \$640 million, while in the range of \$670 million to \$710 million on a constant currency basis. Capital expenditures for the year are expected to be in the range of \$100 million to \$130 million.

We expect full year capitalized SaaS implementation costs to be in the range of \$25 million to \$30 million, which is incremental to our planned CapEx. D&A including amortization of SaaS implementation costs, is expected to be in the range of \$140 million to \$150 million.

For the full year 2025, we expect our adjusted effective tax rate to be approximately 30%. Over the past several weeks and months, there's been a lot of discussion and headlines related to China, Canada and Mexico tariffs.

With respect to these three markets, our potential exposure is not material with the exception of potential retaliatory tariffs from Mexico if the tariffs would be applicable to our products. With approximately six months of inventory already within the borders of Mexico, any meaningful potential exposure, if any, would be in the later part of the year.

For that reason and the lack of clarity on what if any retaliatory tariffs might be implemented, we have excluded any potential impact from guidance. Before we move to Q&A, I want to close my opening remarks with the following point.

Our results are very strong and got increasingly stronger during 2024. Since Q1, our distributor metrics have been improving consistently and in a logical manner. First, from growth in new distributors, to then growth in active non-sales leaders, to now growth in sales leaders.

Our sales leader retention rate grew from 68.3% last year to 70.3% this year. And these metrics have begun to rebuild our foundation and are expected to drive meaningful constant currency net sales growth in 2025 as we have been indicating it would during our previous earnings calls.

Our adjusted EBITDA performance significantly improved in 2024 from approximately \$570 million in 2023 to \$635 million. Our adjusted EBITDA margin also significantly improved from 11.3% in 2023 to 12.7% in 2024 despite a currency headwind. And that strong performance continues into 2025.

On a constant currency basis, adjusted EBITDA margin would exceed 13% in our guidance. Even with a significant currency headwind in 2025, our expected adjusted EBITDA margins are forecasted to be in the mid-12% range. Our cash flow generation has been strong. We started 2024 with a total leverage ratio of 3.9x and have reduced it to 3.2x and reduced total debt by \$250 million in 2024.

With all that we accomplished in 2024, from net sales performance trending in the right direction and positive on a constant currency basis, to meaningful EBITDA improvements, significant debt reduction and strong and improving distributor metrics, these accomplishments are not yet reflected in our valuation.

We have an incredibly resilient business. Our distributors' culture is to adapt to an ever-changing global environment unlike most other direct selling companies and maybe unlike any other direct selling company.

We've proven that multiple times over our history and are proving it again now. The number of new distributors are growing unlike most other direct sellers. Our constant currency net sales are growing unlike most other direct sellers. Our distributors operate approximately 65,000 fixed locations globally, unlike any other direct seller.

Our President and future CEO was an incredibly successful distributor for 32 years, a powerful competitive advantage compared to most other direct sellers. The landscape has changed a lot over the past few years, and we are now set up for the future to continue building on the positive trends experienced in 2024 and expected to continue throughout 2025 and beyond. This year, we will be committed to helping investors understand and appreciate the power of our business and how it is different than it is perceived and how it is different than it is being valued.

This concludes our opening remarks. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question will come from the line of William Reuter with Bank of America.

Robert Rigby^ This is Rob Rigby on for Bill. I guess the first one from us would be what you think needs to happen to turn around North American volume trends? And how long do you expect this to take?

Stephan Gratziani^ Rob, thanks for the question. We've been talking for the last couple of quarters about the fact that we need to rebuild the distributor base and the supervisor base. And so, after fourteen quarters of decline year-over-year, we finally saw last quarter, the supervisor, the active supervisor base rebuild. And that came after three quarters of new distributor growth. Again, it's a question of rebuilding.

We've been saying it kind of time and time again, it's a quarter-by-quarter, but we're very positive about what's happening. And it's just this question of time. You've got certain markets that have come quicker than others, and the U.S. is on track to have its moment.

John DeSimone^ Yes. If I can jump in, so look, obviously all regions performed really well and had constant currency net sales growth with the exception of North America and China. But North America, all of our relevant distributor metrics improved and trends improved, and it's improved multiple quarters in a row.

Our net sales went from down 10% to 11%-ish in Q1 to down 7% in Q2 to down 6% in Q3 to down 3% in Q4. It's still down, but it's down mid to low single digits now trending in the right direction with the foundation of distributors metrics building. I think we're on the right track. It is a matter of time but it's not far away.

Robert Rigby^ Great. No. That's super helpful color. And then in terms of debt repayment, looking at your 2025 maturity, is that -- is the plan just to repay that once it comes due in September? And then I guess in terms of debt repayment over the rest of the year, based on your total leverage guidance for 2025, it seems like that may be the only debt repayment that you're targeting in 2025. I guess, is that correct? And if you have --

John DeSimone^ It's mostly correct. We have the 2025 just under \$200 million due in September. We're going to pay that down. Our revolver is currently undrawn. We'll grow it a little bit to help pay down that debt, the 2025s. And we've said that since a year ago, when we said that we could pay the 2025s with cash flow from the business.

At that point in time our revolver was drawn at \$170 million, so we anticipated that we would have some revolver drawn in September when we pay down the 2025s. That gives us an opportunity to pay down the revolver post paying down the 2025s, if that makes sense, so there is some opportunity beyond the 2025s to continue to pay down debt.

Operator^ That will come from the line of Linda Bolton-Weiser with D.A. Davidson.

Linda Bolton-Weiser^ Congratulations on the progress being made. And congratulations, Stephan, on your CEO-ship. I was wondering about the constant currency sales guidance range for 2025 up 1% to 7%. It's pretty wide.

Can you talk about like what would dictate or what would have to happen for you to get to the high end? And then what would have to go wrong or something for you to kind of end up at only 1% or 2% growth for the year?

John DeSimone^ Yes. So a couple of things. First, I don't think 600 basis points is that wide in this environment and not inconsistent with things we've done in the past, so let's start there.

Second is, on the high end, there's opportunities in China and the U.S. even beyond what we expected. We don't guide by region, but in those regions, there's more upside I think than there is downside risk, and that could get us to the high end.

And on the downside, it's probably the kind of the same kind of markets, markets that aren't quite performing as well in 2024 as we hoped.

Linda Bolton-Weiser^ Okay. Also --

John DeSimone^ By the way, Linda, I mean we have positive numbers, right? I mean that's important. I want to put this in perspective, because I don't want to leave with we could be on the low end of the guidance. From where this company has been for multiple years now we are projecting constant currency net sales growth in 2025.

It's just a matter of how much. And even at 1%, the low end of guidance, that's still a positive result that will give us a lot of opportunity, and 7% will dramatically give us more opportunity. But it's still positive by the way.

Linda Bolton-Weiser^ Yes, of course. And then I guess am I reading this right that with the currency impact, your EBITDA margin in 2025 is not projected to really increase? It looks flat or down including the FX impact?

John DeSimone^ Yes. We have about a \$70 million headwind on EBITDA. Our EBITDA was \$635 million in 2024. Our guidance is \$600 million to \$640 million. The guidance has us slightly below to slightly ahead of where we performed in 2024, and so the margins won't change that much.

Having said that, if not for currency, they would have changed substantially. There is an 80-basis point impact to our 2025 EBITDA margin from currency headwinds over 2024 average currency rates, so it's a meaningful headwind. If not for the headwind, we would be meaningfully higher in EBITDA margins.

Linda Bolton-Weiser^ Yes, okay. And then I guess China, not only was it down, but it was a little bit weaker than we had projected in constant currency terms. The revenue decline was a little worse. Maybe you could just kind of remind us what's going on there? And how much of it is macro and how much are you controlling at this point? And just kind of give us a reminder about that market.

Stephan Gratziani^ Sure, Linda, I'll take this one, thank you. China, as we mentioned, we made a major strategical shift in the way our business is actually focused. It was really to turn to a customer focus, and for the first time ever, we launched in June of last year a customer loyalty program. Which, by the way, yielded the kind of results that we wanted.

We have a much stronger customer base and growing customer base. And so, there was a shift in focus, and we also shifted the focus for the Herbalife Premier League to be focused on customers instead of new sales reps, something we adjusted towards the end of the year, and so it was weaker than we had thought. It's -- the transition is a big transition.

It's the first time we've ever done something like this in the market. And so yes, we were a little bit surprised, just it was a little bit weaker, but at the same time a lot of what we were trying to do has started, and we're seeing the results there.

But we're not satisfied. We know that market has potential and we've got an event that's going to be taking place at their Extravaganza. We're launching the Diamond Development Mastermind there with the top leaders to really have them focus in and be able to put into place the initiatives into their business and their markets to be able to get the kind of growth that we want to get out of China.

Operator^ One moment for our next question. And that will come from the line of John Baumgartner with Mizuho Securities.

John Baumgartner^ Maybe first off, Stephan, I wanted to come back to North America. Acknowledging the return to growth in non-sales leaders and distributors, which it's a nice inflection, but looking specifically at preferred customers, those were down 10% in Q4. And I

know it's not among your main KPIs, but I am curious how you think about the continued declines there.

Is there a read across from that in terms of the pulse of the business, your turnaround efforts thus far? And what it might tell you about any additional refinements necessary for the model or the Herbalife brand?

Stephan Gratziani^ Yes. Thank you, John, for the question. We've spoken in the past about the fact that over a number of years, the business really shifted. It went to more of a foodservice transactional business, which has been fantastic. I mean we talked last year about these 4.4 million customers that had come in I think in 2023. And it's a very strong business. It's a great foundation.

But the transition of those foodservice customers to using the products from a product result standpoint has been an area of weakness for us. And so, a lot of the work has been focused on working with the clubs and the club leaders to have them build into their models this incredible model of serving customers on a day-to-day basis, offering a value in terms of product results. And so, our business in the U.S. is a good percentage. Nutrition clubs, we have obviously different demographics, different areas, people that focus on different things.

But I would say the big transformation for us in the focus is to really balance out the transactional with the transformational. I think this is where we kind of see that we've got just kind of a mixed group of people in different places in their models of really having the balance that they would want to have and we want them to have. We're just fully supporting that.

One of the things that really has started to happen, we mentioned it as well last year, was starting to have trainings, instead of very basic vanilla here's how the marketing plan works, here's information about the products, is moving to more DMO-centric trainings. And that's been something that we've had a great success with here, and there's more demand for it. That's very positive. The response has been positive. And there's just a lag in terms of distributors putting everything that needs to be put into their models to get the results that we want.

John Baumgartner^ Then is it fair to think that what you're attempting to affect in the business, is it fair to look at those preferred customers as sort of a barometer or a proxy for the progress you're making in terms of moving from transactional to transformational?

Stephan Gratziani^ It is, but it's also about what value they're being offered. We talked about this in the past, but some clubs, the transition from a customer who buys a shake at the bar, to a preferred customer, it's 1% or 2%. You've got 100 individuals walking into a club, only one or two are becoming preferred customers. Depending on the model that they have, the actual conversion of customers to preferred customers is low.

Our job is to have everybody raise those numbers. We believe that there's value in not just walking in and having a convenient healthy shake or tea, there's value in getting on the Herbalife products and getting a product result that is visible, that feels, and that's a fundamental part of our business.

It is a little bit of an indicating leader, an indicating number, but we have work to do because in general overall, the model hasn't really adopted the aspects that they need to adopt to make that happen and change those numbers. But we're working on it.

John Baumgartner^ Okay. And then, John, coming back to FX, it's a big drag on EBITDA this year per the guidance. And I'm curious, the business has some I guess good-sized exposure to regions where you can argue currency depreciation is sort of a structural factor. And I mean translation impact is one thing, but how do you think about the underlying economics?

I mean at what point does it maybe make sense to rethink the supply chain where you shift more to local production and match with local consumption, given that we could be in maybe a four-year period of on and off tariffs and disruption and who knows what happens after that?

John DeSimone^ Yes. It's a great question, and we do constantly look at those things and have relooked at it in the light of some of the tariff discussions that have been published. First, let's take it into pieces. Most of the impact of currency is translation.

It's maybe \$10 million to \$15 million of the \$70 million is transaction, so a lot of it is translation. That limits a little bit of the opportunity. The biggest currency that's impacting us is the Mexican peso. The second biggest is the euro. Most of our product in Europe is already denominated in euro and made in Europe.

In Mexico, we don't have the opportunity to produce locally for a number of reasons. If there's a tariff imposed, we can make the product somewhere other than the U.S. potentially, but we're not going to make it locally. So there is not a lot of ability to create the natural hedges for manufacturing. We have done it in a handful of countries.

But even in those countries, it has somewhat limited impact because a lot of the ingredients are priced in dollars, even if local conversion costs are priced in local currency. And we see that in Brazil, where we make a number of products in Brazil, but the ingredients are priced in dollars, so it's just not a huge opportunity.

The bigger opportunity is on the price side as the currency movements kind of work their way down into the local inflationary changes, and then we can take price increases as is seen in the local inflationary conditions in the marketplace.

Operator^ One moment for our next question. And that will come from the line of Hale Holden with Barclays.

Hale Holden^ Thanks and congrats fellows on the new roles. John, I have two quick ones for you. The first one is on the leverage target. It would seem like maybe you could do better than 3x this year. I just wanted to make sure I wasn't missing anything in your free cash flow bridge.

John DeSimone^ Our stated goal is to be at or below 3x and that hasn't changed. It doesn't mean -- if we do better, we do better, that would be below. But we have not changed the target.

Hale Holden^ Right. And the second question I had was, maybe I need a textbook for Dummies, but could you just tell us which IP you moved to Europe and then maybe walk through very simplistically why it's not changing the 30% tax rate that you guys pay?

John DeSimone^ Well okay. Actually, it is more complicated maybe than you might think, and that's why you're asking the question. We transferred some IP. It doesn't matter what IP, right, but it's intellectual property that we moved. The purpose of the move really is twofold. One is to facilitate better economic transfer of cash in the future, which we need as we look to pay down debt. That wasn't contemplated when the original structure was put in place.

But this structure also gives us greater flexibility to move other things around. Like if we did want to move manufacturing around or we did want to consolidate facilities, this structure gives us the better opportunity to do that. Now that's question A. That's why we did it.

The impact on the future cash rate, excuse me, tax rate, is excluded from guidance. This was a noncash benefit this year. Going forward, there will be somewhere around 500 basis points of noncash detriment that offsets this over a long period of time.

We'll just keep carving it out. We carved out this and we'll carve out the offsetting noncash debit that you'll see in the P&L. It doesn't change our cash tax at all.

It was noncash benefit this year, it will be a noncash detriment in future years, but we've excluded it from guidance. Which I think is important given it's noncash, given that we're looking -- the major purpose of this reorg was to generate more cash to pay down debt. We're going to, like I said, we carved out the benefit, we're going to carve out the detriment.

Hale Holden ^ Great. I follow that. Thank you very much.

Operator^ One moment for our next question. And that will come from the line of Karru Martinson with Jefferies.

Karru Martinson^ Good afternoon. Just regarding the different demographics of your distributor base here in the United States, we've gotten the question a couple of times now is there an impact from the immigration policies of the new administration?

Stephan Gratziani^ Karru, thank you for the question. Look, I think everybody sees the headlines, and it's hard to know the reality on the ground. For us, it's just too early to tell if there's going to be any impact whatsoever. But again, it's headlines are headlines. How real it is and to what extent it's impacting, we just don't have enough to know right now.

Karru Martinson^ Okay. And then when we look at the Latin American distributor growth, very strong numbers. How much do you feel that has been driven by the changes that you've done in the market? And is that something that you would think of replicating in other markets?

Stephan Gratziani^ Yes. I think it has a lot to do with what we've changed. I mean John can talk about kind of the optimization that we've done there, but there's been a lot of support for

distributors in terms of just making sure the opportunity that they have financially speaking, is really designed for their markets. And so, John, maybe you can talk a little bit more about that.

John DeSimone^ Yes. Look, I think the one size fits all, which is kind of the foundation of our marketing plan, we call it marketing plan, it's our distributor compensation plan. The incentive program was pretty similar across the globe. And one of the big movements we have along with distributor leadership is to find the optimal incentive program for various countries based on what's going on in those countries. And our Latin American test, it's not in all Latin American markets, but it's in most, has been very successful, and we do think that opens the door to additional possibilities.

It's all about creating the optimal incentive program for each market. And it's one of the reasons why volume points aren't as valuable a metric as it used to be. Because now we're changing to volume points, so when you look at the year-over-year comparison, it doesn't tell you much.

What we're going to do is not use that metric anymore publicly and just deal with net sales, still providing investors with visibility into the change in net sales that came from volume, but we don't need to use volume points anymore.

Karru Martinson^ Thank you very much. Appreciate it.

Operator^ Thank you. One moment for our next question. And that will come from the line of Doug Lane with Water Tower Research.

Douglas Lane^ Congrats, Stephan. And if Rob is in the room, congrats as well. Stephan, the number that really stuck out to me was that new distributor number. The 22% is an acceleration, but it's a pretty sharp acceleration from 14% last quarter and 12% the quarter before after several years of negative.

I really want to drill down on what is going on? What are you doing to drive that acceleration of new distributors? And now as we see non-sales leader members and how are we going to see that manifest ultimately in sales leaders?

Stephan Gratziani^ Doug, thanks for the question. Look, we've been saying the same thing for the last few quarters.

We needed to and need to rebuild our distributor base. And so since the beginning of last year, all of the initiatives that were put into place, whether it was to actually come up with a program, the Herbalife Premier League, which for the first time in I don't know how long as a distributor, I don't remember there ever being a time like this, where there was an actual program that focused on distributors going out and having a target of the amount of new distributors they were going to bring into the business. And along with that target would be also a focus on activating them.

And along with that target, a focus on getting 20% of those distributors to convert and qualify as supervisor and become sales leaders. And so, number one, having a program that never existed before has made a difference.

It's been one initiative. That program actually really went far beyond our expectations. If we would have had the same program in 2023, there would have been 7x less people qualifying for it. We have a situation where we've got a focus now as a company. We've brought in new training and given support to leaders that we've never done before in the past.

We've upped the type of training that people are getting in terms of having access to understand what are the go-to-market strategies that are working so they have access to learn it and implement it and be supported in that. And so, all of the initiatives, and quite honestly the distributors.

I mean we can have all of the initiatives, but if the distributors don't take it on, if they're not focused, and if they're not willing to put in the work, then things don't happen.

And I think that's where you see this acceleration and the momentum and rebuild. And so our job is to support them in that process with the programs, the initiatives, the tools and the technology to go out and build and scale their businesses. And so we are just very steady.

We are on this focus. We will continue to deliver more service and value to the distributors and tools and allow them to go out and do what they do best, which is build businesses.

Douglas Lane^ Well certainly, the numbers bear that out. And looking at the average sales leader number, it stabilized in the quarter for the first time also in many years. And so I would read through that this new distributor growth is starting to manifest itself in sales leaders. I guess the question is the timing and the magnitude of where we ultimately end up since my models are base driven by the sales leader number.

Stephan Gratziani^ Yes. I mean -- and again, we've been saying quarter-by-quarter. We have different regions at different places in terms of where they are in implementing and how many quarters of growth they have of new distributors coming in and how high that growth is. And so, it's really going to be the consistency of the rebuild over time.

I wish I could pick out a quarter. I think we're confident that moving into the second half of this next year, of this year, we are going to hit our stride. Again, quarter-by-quarter, we'll be back next quarter and sharing more. But we'd all love to have that looking glass into the future. And yes, we just -- quarter-by-quarter for us.

Douglas Lane^ Got it. Fair enough. Thanks, Stephan.

Operator^ Thank you. I'm showing no further questions in the queue at this time. I would now like to turn the call over to Mr. Michael Johnson for any closing remarks.

Michael Johnson^ Well I've got a few. This is my swan song. I'm a little emotional about it, I have to be honest. But before we end the call I just want to acknowledge the events in Los Angeles over the last month. The recent wildfires, they've impacted so many people.

Distributors, employees, our communities. And a helpful hand from so many employees, and we appreciate all those who have stepped up to offer support and especially the first responders that are out there.

In our true fashion, we've had employees and distributors come together to provide nutrition, financial assistance through our family foundation, and then personally. A lot of people are picking up clothes and delivering them to Goodwill and Red Cross donations were made and personal donations were made.

It just shows the strength of our community and how well we respond to things like this. For those of you who are not in L.A., it's devastating. And this is our home. This is where the company was founded by Mark Hughes. And Mark had a dream in 1980. And when I walked in the door here in 2003, I'm not sure I fully grasped it or understood it.

I thought I was walking from my entertainment background with a content and distribution company. I didn't realize the blood, sweat and tears that went into the individual efforts that make this company so interesting and so great.

We've been portrayed and mis-portrayed over time. We fought some battles. We dealt with some incredible instances. Mark did it in the '80s and '90s. I had to do it in the '10s, the '20s and '15s, and deal with lies and misinformation and images that got smacked for our company that just weren't true.

I wish I could drag each of you to our supply chain to see the quality and the science and the products that we put out in the marketplace, the exceptional attention to detail that's out there because we know we put a product in people's bodies every day.

I wish I could take you to Nutrition Clubs and alongside distributors who've changed their lives dramatically by offering an economic opportunity to raise their station in life, to build something incredibly special for their families, for themselves, to do something that may not have an educational pedigree that so many executives and so many companies have.

But to have a pedigree of hard work, gut grit, resilience, people with the fraternal skills to build communities. This is what Herbalife is all about. This is why I'm so confident about the future of this company. I've known Stephan for 22 years.

Our first meetings with each other were not always easy by any means. He was strong and bold and had ideas about where the company should go and how it should go there alongside other distributors who've always had the best ideas about distribution inside this company.

All of our great ideas have come from the field. And the opportunities to build better distribution. Our content side has been a dual purpose, but it's come from inside and outside. It's come from the marketplace, from the changing nutritional habits of the world that are taking place. But what this company really encompasses is the personal experience people have.

The success, the change, the transition they get in their lives. The transformation of weight loss, the transformation of a healthy active lifestyle, of building something incredibly wonderful in their lives.

We're always going to need money. This is the way the world operates and Herbalife offers a great business opportunity. You're always going to need good nutrition for longevity, for opportunity to grow, for opportunity to experience your grandchildren like I am now to have a wonderful partner in my life to go do wonderful things with out in the marketplace. But I'm going to continue to stay engaged and involved with Herbalife emotionally, physically.

I'm going to do everything I can to work with the Board that we supply the resources this company needs and Stephan and John and Troy and Henry and all of the different members of the team, and Rob, our new President, all the things they need alongside our distributors and all the resources they need to continue to make Herbalife strong. My final word is pretty simple.

It's net sales up, gross profit, EBITDA, debt, all of those important factors in this business are on improving trends. We've got something special here.

We've got a company poised for the future with a vision through Stephan and the team here that's going to be unleashed in our distributors over the next year that's going to create a new Herbalife and a new opportunity. Thank you all for 22 years of experiencing me, and I first walked in the doors, here a month now in March of 2003, to today.

I've grown. I understand this business. I understand our company. And I'm just super proud of the way we're leaving it in the great hands of Stephan, Rob and the team here. Thank you, guys. You won't see me next quarter, but you will hear from the management team. And let's go Herbalife. Thank you.

Operator^ This concludes today's program. Thank you all for participating. You may now disconnect.