

Herbalife Nutrition Ltd (Q2 2022 Earnings)

August 2, 2022

Corporate Speakers:

- Eric Monroe; Herbalife Nutrition; IR
- John Agwunobi; Herbalife Nutrition; Chairman & CEO
- Alexander Amezquita; Herbalife Nutrition; CFO
- John DeSimone; Herbalife Nutrition; President

Participants:

- Chris Neamonitis; Jefferies; Analyst
- Jeff Van Sinderen; B. Riley; Analyst
- William Reuter; BofA; Analyst
- Hale Holden; Barclays; Analyst

PRESENTATION

Operator^ Good afternoon, and thank you for joining the Second Quarter 2022 Earnings Conference Call for Herbalife Nutrition Ltd. On the call today is Dr. John Agwunobi, the company's Chairman and CEO; John DeSimone, the company's President; Alex Amezquita, the company's Chief Financial Officer; and Eric Monroe, the company's Senior Director, Investor Relations.

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

Eric Monroe^ Good afternoon. On today's call, we will be making some forward-looking statements. And while we are making those statements in good faith, we do not have any guarantee about the results we will achieve. Descriptions of our risk factors are included in the documents we filed with the SEC.

We will also be discussing some non-GAAP financial measures. These non-GAAP and adjusted numbers refer to measures that exclude items management believes impact the comparability for the period referenced. Please see the earnings release for additional information on our comparability items. These GAAP to non-GAAP reconciliations can be found in the earnings press release and the slides we will be reviewing on today's call, both of which can be found in the Investor Relations section of our website.

I'll now turn the call over to Chairman and CEO, John Agwunobi.

John Agwunobi^ Thanks, Eric, and good afternoon, everyone. Thank you for joining our second quarter 2022 earnings call. You might have noticed that we've enhanced the format of our call by adding a slide presentation to accompany our verbal remarks. We

hope the enhancement not only makes it easier to absorb our quarterly update, but also provides for a richer understanding of our business performance.

I'll start with the highlights of what we'd like you to take away from our call today. First, I'm pleased to announce our second quarter financial performance exceeded the top end of our guidance range for net sales, volume, adjusted EBITDA and adjusted EPS. As you might recall, last quarter, we saw a slowing of business trends and certain underlying KPIs at the end of the first quarter, which continued in April.

With that backdrop, we're also pleased to update you that, compared to April, our business trends and metrics appear to have stabilized in the months of May and June. That said, we acknowledge that there's still a significant amount of work to accomplish, particularly around improving our new distributor and new preferred customer metrics. I'll go deeper into our KPI trends in a moment.

To address the macroeconomic landscape that many companies are facing, we implemented meaningful price increases in mid-June to partially offset the dramatic inflationary increases that we are seeing in our input costs. As a reminder, our raw material manufacturing overhead and freight costs are increasing ahead of local consumer price indices. We believe the timing of these pricing actions largely drove the top line outperformance that we achieved in the second quarter. Specifically, pre-buying ahead of the price increase resulted in sales activity being pulled forward from July into June. Our guidance for the third quarter includes the impact of this pull forward.

It should be noted that, even without the pull forward, our Q2 top line performance was in line with our guidance. As such, we are reaffirming our full year 2022 guidance for net sales and volume. We're also reaffirming our adjusted EBITDA guidance for the full year 2022. We anticipate the execution of expense management initiatives that helped drive our adjusted EBITDA performance in the second quarter will continue throughout the year and will help absorb the significant incremental FX headwind on EBITDA. However, in addition to the FX headwind, an increase to our full year tax rate as well as the incremental cost of our variable rate debt as a result of Fed tightening are primary drivers of a \$0.25 reduction to our adjusted EPS guidance range.

Looking to the future. After significant analysis on our digital strategy, we are launching Herbalife One. This will be the cornerstone of our front-end distributor-facing technology platform. More on this investment in our future in just a moment.

But let's get into the details of the second quarter. Reported net sales for the second quarter declined 10.3% compared to the prior year, which exceeded the high end of our guidance range. As a reminder, our second quarter of 2021 was the largest quarter in the company's history, which benefited from situational demand related to the pandemic. With this backdrop, despite the year-over-year decline, when compared to the last prepandemic second quarter of 2019, net sales grew meaningfully by 12.3%. Reported net income of \$87 million resulted in adjusted EBITDA of \$195 million, which is also

above our guidance range. EBITDA margin in the quarter was 14%, which was a sequential improvement compared to our Q1 margin.

Reported earnings per share of \$0.88 resulted in adjusted earnings per diluted share of \$0.96, beating the top of our adjusted EPS guidance range. In addition to the top line beat, the team took decisive actions to execute on expense management initiatives that contributed to the bottom line beat. This is in addition to our transformation program that we discussed last quarter.

We completed approximately \$30 million of share repurchases in the second quarter, bringing our year-to-date total to approximately \$132 million. This buyback was consistent with our methodology of returning our excess cash flow to shareholders through share repurchases.

Our underlying business trends and KPIs stabilized during the remainder of the second quarter compared to April levels. One of our KPIs, average active sales leaders, showed monthly improvement in the months of May and June. For the quarter, average active sales leaders of approximately 482,000 was just 3% under last year, but were significantly higher than prepandemic levels, which were in the low to mid-400,000. New distributors and preferred customers joining the business have also stabilized off April trends, showing a slight improvement in the months of May and June.

While still above prepandemic levels, our recruiting trends remain meaningfully below 2020 and 2021. We view this as an opportunity to drive growth, and we are working closely with our distributor leadership on ways to increase the number of new members entering the business.

During our first quarter call, we stressed the importance of returning to in-person events as a potential catalyst to return to growth. As a reminder, we believe that the interactive discussions, face-to-face team building and social elements that are characteristic of our in-person events are all an important source of ideation, motivation and inspiration for our distributors. Based on a sample we analyzed from a series of U.S. events in April, we measured both increased activity rates and productivity from distributors that chose to attend an in-person event versus non-attendees.

During the 2 months following the event, May and June, we observed an improvement of 8 percentage points in activity rates and a 10% improvement in productivity from those that attended an event in person versus non-attendees. Again, we believe in-person events are one of the best opportunities to educate, train and motivate our distributors, particularly those that are new to the business.

Turning to our regional results, where I will highlight activities from our 2 largest regions. The Asia Pacific region had another quarter of growth, up 15% compared to the prior year and set a quarterly sales record for the company. The region was led by continued strength in India, which grew 30%. India is supported by strong underlying

metrics, including 25% year-over-year growth in new distributors and preferred customers and 37% growth in active sales leaders.

The preferred customer program in India has been a significant driver of growth in the market as both a means to engage new product consumers as well as to introduce consumers to the potential business opportunity. Over 40% of our total sales leaders in India converted from the preferred customer program to become distributors and go on to eventually qualify as sales leaders.

Looking at North America. We saw a decline in net sales of 16% in the quarter. This decline is against a challenging prior year comparison period from the largest quarter in the region's history. However, compared to Q2 2019, prior to the pandemic, the business increased by approximately 23%. Distributor recruiting remains a focal point for the region. Just a few weeks ago, we hosted our first in-person region-wide extravaganza for NAM since 2019, with attendance of over 20,000. As a result of the stabilization of business trends observed during the second quarter, despite a significantly stronger U.S. dollar, we are reaffirming our volume point net sales and EBITDA guidance for the year.

Our guidance continues to imply year-over-year net sales will show growth for the fourth quarter. For the full year, our updated adjusted earnings per share guidance includes a projected year-over-year currency headwind of approximately \$0.55 per diluted share, an incremental \$0.32 headwind from prior guidance. Alex will provide more details on our guidance in just a moment.

Moving on to the launch of Herbalife One, the future of Herbalife Nutrition's digital technology. Designed to supercharge distributor growth and elevate customer experiences around the globe, Herbalife One will be our first-ever unified data and AI-powered global digital platform, enabling growth by delivering a best-in-class digital experience around the world.

From reimagining sign-ups, e-commerce, downline management to providing seamless payment options and other innovative capabilities to drive ongoing engagement, satisfaction and loyalty, Herbalife One will help differentiate and strengthen our leadership in the market. We will build Herbalife One on a brand-new architecture that will allow for scalability, flexibility, performance and speed to market of future capabilities, laying the foundation for our future success.

We are projected to invest approximately \$400 million in this program, with net incremental expenditures of \$200 million to \$250 million over the next 3 years. Herbalife One represents the single most significant investment in the company's history, and it demonstrates our confidence in the potential of our business.

I'm also proud to announce that we're making some executive leadership promotions to ensure we are better supporting our independent distributors and unleashing the potential and power of our regional teams. John DeSimone will become Executive Vice Chair of the company. John's vast experience and unmatched knowledge of our company will

enable him to work on transformative growth initiatives that are central to the company's future.

Additionally, we are looking to move more responsibility to the regions, and we're creating 3 regional presidents. Stephen Conchie will be the Regional President of APAC and China. Edi Hienrich will be the Regional President of EMEA and India. And Frank Lamberti will be Regional President of the Americas. These individuals have proven to be effective leaders, and their new titles reflect the importance of their roles. These 3 people will also report directly to me, and I look forward to their continued contributions.

Before I turn it over to Alex, I'd like to say that we have unwavering confidence in the resilience and strength of our distributors. We continue to innovate with local product development, which resulted in approximately 60 new SKU launches during the second quarter and over 20 new launches so far in Q3. We believe our ongoing investments in our business and products will drive performance and ultimately create meaningful shareholder value.

I will now turn the call over to Alex.

Alexander Amezcuita^ Thank you, John. I'll start by reviewing our financial performance for the second quarter, followed by guidance and close with comments related to our capital structure, cash and share repurchase activity. Second quarter net sales of \$1.4 billion represents a decline of 10.3% on a reported basis compared to the second quarter in 2021.

As John mentioned, net sales were materially above our guidance range, largely due to increased activity in the month of June as a result of prebuying ahead of the pricing action we executed mid-month. Normalizing for the prebuying that took place in June, we estimate net sales for the quarter would have been in the upper half of our guidance range.

The U.S. dollar strengthened significantly against most major currencies during the second quarter and had a significant impact on our Q2 results as well as full year forecast. FX was a 440 basis points headwind to net sales, which was 170 basis points unfavorable compared to the Q2 guidance. We benefited from 510 basis points of pricing, which was largely from the price increases taken prior to the start of the second quarter. We will not see the majority of the benefit of the pricing actions taken in mid-June until the third quarter.

Moving to margins, where adjusted EBITDA of \$195 million resulted in an EBITDA margin of 14.0%, which outperformed our margin expectations for the quarter. Although gross profit of 77.3% in the quarter was a sequential improvement, it drove an EBITDA margin headwind versus prior year of approximately 200 basis points, primarily driven by increased input costs in our supply chain related to raw materials and manufacturing overhead as well as shipping costs.

Within SG&A, we experienced an approximate 110 basis point headwind related to distributor promotional spend. This headwind was largely from the timing of a major distributor event that took place in the second quarter of 2022, but took place in the first quarter of 2021. Recall, in 2021, our distributor promotions were significantly disrupted because of the pandemic, and we are now returning to more normalized levels of promotional spend.

In the second quarter, we saw an increase in professional fees spending versus prior year, primarily related to the digital initiative Herbalife One, noted earlier, which accounted for approximately 40 basis points of EBITDA margin pressure. We are beginning to see the positive impacts of cost savings in labor and benefits. During the second quarter, we benefited by approximately 70 basis points of EBITDA margin expansion due to efficiencies and targeted strategic improvements as well as lower employee bonus accrual, leading to favorable margin impact, even after absorbing the impact of annual merit increases.

There was an approximate 40 basis point net benefit from the impact of price increases, mix and other items. As mentioned earlier, currency had a significant impact and led to an additional 70 basis point headwind on EBITDA margins.

Adjusted EPS for the second quarter was \$0.96, above our guidance range of \$0.60 to \$0.80. FX was a headwind in the quarter of approximately \$0.13, which was \$0.06 unfavorable from what was assumed in guidance. Our higher tax rate, primarily driven by geo mix of income, was an approximate \$0.09 headwind in the quarter compared to our guidance assumption.

Moving to guidance for the full year, where we are reaffirming our net sales estimates to be in a range of down 10% to down 4% on a reported basis. We are absorbing an incremental headwind of approximately 210 basis points compared to our prior guidance due to the ongoing strengthening of the dollar. The full year currency headwind is now 440 basis points, which is reflective of the average U.S. dollar to foreign currency exchange rates for the first 2 weeks of July.

I want to highlight that the midpoint of our fiscal year guidance for 2022 of down 7% is coming off the accelerated growth we experienced in 2020 and 2021. The \$5.8 billion of net sales we achieved in 2021 was just under 20% growth from 2019. We are still netting approximately 11% growth going from the prepandemic era to the midpoint of our 2022 guidance. As John stated, our guidance assumes a return to year-over-year net sales growth in the fourth quarter.

We are reaffirming our adjusted EBITDA to be in a range of \$680 million to \$740 million. We are reducing full year 2022 guidance for adjusted diluted EPS to a range of \$3.25 to \$3.75. This \$0.25 reduction to the range of our prior adjusted EPS guidance is primarily driven by unfavorable FX headwinds as well as a higher tax rate and interest expense. FX now represents a year-over-year headwind of approximately \$0.55 for 2022, \$0.32 unfavorable from the \$0.23 full year headwind assumed a quarter ago.

Turning to our cash position and our share repurchase activity. Our cash generation ability remains strong. And during the first half of 2022, we generated approximately \$229 million of operating cash flow. We expect that the cash generation in the back half of 2022 to track ahead of the back half of 2021. We currently have approximately \$580 million of cash on hand. During the second quarter, we completed approximately \$30 million in share repurchases, which we executed while remaining prudent with the cash given the difficult macroeconomic backdrop. While we continue to be opportunistic with future share repurchases, we are modifying the buyback assumption used in guidance.

During the third quarter, the company plans to reallocate the \$50 million previously designated for share buybacks to strategically reduce outstanding debt. We are currently tracking above our target leverage ratio of 3x gross debt to EBITDA, and this debt payment will help bring us closer in line. Share repurchases may still be executed opportunistically during the third quarter but are not assumed in guidance. Our guidance does assume that \$50 million of share repurchases are resumed in the fourth quarter to maintain the pattern of consistency we began in the beginning of 2021. We continue to believe the repurchase of common shares is consistent with the company's long-term goal of maximizing shareholder value.

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 Chris Neamonitis with Jefferies.

Chris Neamonitis^ Congrats on a nice quarter. My first question is just around the demand following the pricing action in June. So it sounds like you're keeping a watchful eye on trends. And I know you're sitting here today with only 1.5 months of data. But based on what you're seeing through July, could you tell us what you're seeing relative to trends in demand?

Alexander Amezquita^ Yes, I'll take that one. Thanks for that question. Obviously, that is something that we're watching closely. It's a little different to comment yet on what we're seeing in July. We really need to see August to make those comparisons to really kind of isolate what is really demand elasticity versus all of the other factors that are going around the world, the macro backdrop that we're experiencing. So we'll need a couple of months, August and September especially, to really have a comparison where we can isolate what is demand elasticity versus other factors.

Chris Neamonitis^ Okay. That's fair. And then maybe if I could ask about the sales guidance. Nice to see the reiteration today. But I'm curious, the outlook is still based on April trends run rating through the rest of the year, right? So maybe could you walk us through your thought process in leaving that unchanged despite what kind of sounds like an initial rebuild of momentum?

Alexander Amezquita^ Sure. So really, you have a number of competing factors throughout the P&L, so I'll take it line item by line item. From an April run rate trend, and so we're talking about the underlying KPIs and the volume that is being achieved in each of our regions, that's effectively netting out to be in the same place as we -- back in April. So the guide in April versus the guide now effectively has very similar performance of the business for the remainder of the year.

When you then take that business performance and go down the net sales line, you effectively have the pricing actions that we took in mid-June being counteracted by the FX headwind that we're seeing, the strengthening of the U.S. dollar in most major currencies. So effectively, all that pricing that we're getting is effectively netting out from FX.

As you go down to EPS, some of that expense management that we saw in Q2 is going to make up for the -- of that same FX impact that I mentioned on our net sales line. But how that impacts EPS, we also have tax rate increasing, and we also have interest rates increasing on our variable rate debt. The combination of those 3 things, we're going to offset the lion's share of it. We're going to offset in our EBITDA, but there is a remaining \$0.25 lowering in our EPS range.

So again, a lot of different factors impacting each line of the P&L. But fundamentally, the underlying business and how we saw it sort of playing out for the full year, yes, there's a little timing issue of some of the pull forward that we saw in Q2 coming out of Q3, but effectively, the strength of our business coming off of our April levels.

Chris Neamonitis^ Great. That's super helpful. And then maybe just last one for me, so if you were to recast the sales guidance, maybe using the old approach that embeds all of the various KPIs that you've historically looked at, how would that shake out versus what you've reiterated today? And then maybe separately, if we were to compare those KPIs to how they looked at Q1 when you last reported, is it safe to say there's been a broad-based improvement sequentially?

Alexander Amezquita^ I missed a little bit of your beginning question. I think -- are you saying is our KPIs -- I'm going to answer this question as if you asked our KPIs today where they were in April. Is that the question?

Chris Neamonitis^ That's essentially the question. And then if you were to use kind of historical approach of guidance setting, where would that land relative to what you've reiterated today?

Alexander Amezquita^ Yes. So first of all, our guidance setting, we're using the same approach in which we used last quarter, which is effectively where we're run rating today. Where we're run rating today is effectively where we were run rating in April. So our KPIs haven't meaningfully changed. Now the one caveat to that is we had April, and it's not a lot of months of data, right? We had April.

We saw May stabilize off of April. And then we had June, which was impacted by pricing. If you normalize for some of that price increase activity, you take reasonable estimates, you would have a June that looks stable off of May. And so that is effectively a stabilization of the KPIs that John mentioned at the beginning of this call. And so that's what's carrying forward into the guidance for the rest of this year.

Operator^ Our next question comes from the line of Jeff Van Sinderen with B. Riley.

Jeff Van Sinderen^ I know you mentioned product mix maybe shifting a little bit. Any trends you can touch on there? Maybe also speak to kind of what you're seeing in the weight control segment of the business, the performance segment. And then also, if you could just speak to the product, how you're rolling that out, how that's being received so far.

John DeSimone^ Yes, this is John. I'll take that. So we see the same trends in the product categories that we have seen really now for a couple of years, which is outperformance from a weighted standpoint in sports nutrition and then how the active lifestyle, healthy weight is dropping a little. And that's just where our new product launches are. That's where our new consumers are coming in. We see improved customer lifetime value for people who buy sports nutrition or health and wellness products versus weight management, which is not uncommon.

We use weight management certainly as a change in lifestyle, but some people are very goal-oriented. So we continue to see that shift. It's small because, obviously, weight management is the biggest part of our portfolio, but we are seeing a shift. And we're seeing a shift in our distributor base, too. If you come to our events -- and we just had a big one in Detroit -- you'll see it's a lot of healthy people who are coming from more than just weight management. So we do see that trend. And we'll continue to see that trend. And of course, we're launching more sports nutrition products, and we're expanding it around the globe, and you'll continue to see that.

John Agwunobi^ Yes. I would just add -- this is John Agwunobi. I would just add that I think, across the broader nutrition and fitness space, we're seeing -- and this is a long-term trend. We're seeing people sports nutrition for their weight management goals. In other words, people who typically would have gone after a weight -- what we would traditionally call a weight management product, a high-protein, low-calorie product, for example, are increasingly going to sports nutrition solutions as an alternative there, whether it's a part of their fitness environment or their lifestyle, they're looking for products that are designated as sports nutrition products, the line is blurring between the 2 categories.

Now the good thing as it relates to us is we play strong in both spaces. So no matter where the customer goes, whether it be the traditional weight management category that we offer, Formula 1 being the anchor product in that range or our Herbalife24 sports nutrition category, we find that the customer moves freely back and forth between the

two, seeking high-protein supplementation and low-calorie nutrition, and we offer both in both categories. We're seeing growth, as was mentioned, significant and impressive growth, I think, in our sport nutrition category and growing at a lower pace over on our weight management side.

Jeff Van Sinderen^ Okay. So I'm sorry, just to clarify, you're saying weight management is still growing?

John Agwunobi^ Yes. I mean, as a category. Let me see if I can pull up the exact number of the categories -- the category.

Alexander Amezcuita^ So to be clear, Jeff -- this is Alex speaking -- our year-over-year growth rates, I mean, for net sales were down 10% year-over-year, right? So we have -- but the same trends of sports and fitness outpacing our weight management category is still consistent. So if you look in the Q, I think our weight management is down double digits, and we have our energy, sports and fitness effectively flat.

So you still have that significant outperformance. But to -- from a growth or contraction standpoint, I just want to be clear, there's still a contraction, but the energy and sports and fitness is outpacing our weight management. Again, that's just reflective of our overall company performance.

Jeff Van Sinderen^ Right. But it sounds like we've seen some stabilization here in the last couple of months, and I believe you're guiding to Q4 inflecting to up year-over-year. So it seems like you're going to have growth somewhere, and it's been -- from what you're saying, it sounds like sports nutrition is really going to continue to be the fastest-growing segment. Correct me if I'm wrong on that.

John DeSimone^ Yes. So just to make -- I mean you heard from a lot of people answering this question, so let me see if I can recap it -- question, so let me see if I can recap it. Sports nutrition, we expect to outpace performance of the other categories in nutrition. And that's from just a percent of the pie, right? So let's look, I mean, we have other performance criteria we're measuring and other performance measurements.

But within the pie of what we sell, we expect faster growth in Sports Nutrition than in weight management. This opportunity, all of the categories that we sell, we expect to return to growth before and growth next year. But the opportunities within the 3 big categories we have, which is weight management, health and wellness products and sports nutrition, we expect the fastest growth to come in sports nutrition.

Jeff Van Sinderen^ Right. Well, I mean, given kind of what you're seeing the shift to people, I guess, maybe using sports nutrition more for weight control, that seems to be a real positive, I would think. One other thing I wanted to ask you about, and then I'll let someone else jump in, just wanted to ask if there's anything more you can offer and giving us color on the Herbalife One product, what that will consist of.

Obviously, it's a large investment, and it seems like it's extremely well thought out, and I would think going to be a phenomenal product with that level of investment. But maybe you could just talk about some of the benefits for distributors, consumers and then also the data from that system that you'll collect, big data that you can analyze and apply to improve your business.

John Agwunobi^ Yes. Let me start there. So thank you for the question because it does allow us to kind of, I think, emphasize how important this feels to us internally. Our distributors have, for many years, spoken to the need for us to use our front end, our consumer-facing and our distributor-facing technology as a competitive tool, as a way to differentiate us from the competition. As you can imagine, our online interaction with new distributors and new customers, it's the first interface that people typically have.

It helps define the brand. And so a big part of Herbalife One is about making sure that the experience online, whether that be through social media interactions with the company or traditional online interaction with it, making sure that, that experience reflects the modern -- you'll forgive the phrase -- sexiness of our business, in other words, we want to make it a tool that helps attract people into the lifestyle, into the community that is Herbalife Nutrition.

The technology itself, our hope is that it will make signing up of new distributors faster and more efficient. Our hope is that it makes transactions, whether that be distributors to company or distributor to customer transactions, faster and quicker and more efficient. It's also a way, as you point out, for us to gather data and to use that data not only to do the traditional kind of e-commerce type work that everyone else is doing, and it's time for us to now do the same, but we also think that there's knowledge there that we can use to better kind of decide what products we should get into next in each of our regions. What - - how to package and promote both bundles and individual products to our customers.

The bottom line is our hope is that this new tool helps us sell more faster. Now it also is going to provide our individual distributors and their own independent businesses with data that they can use to better target customers, to better target where they are going in terms of growing their businesses, to better track and monitor their businesses.

The bottom line is this, and we've used this -- forgive me for using an anecdote that we've used internally. The way we see it is this is a wholesale teardown of the old house and the build of new. We want to -- it's not just about fixing stuff that isn't working. It's about trying to leapfrog to the next generation of technology so we're better able to kind of get ahead of the competitive curve when it comes to technology.

In the end, we think it's going to help our distributors who've actually been working with us for months to help design this. In other words, it's not something that we're building in the center and then handing off to the distributors. The distributors have been sitting with us for a number of months to kind of help us identify where the pain points are, where the opportunities are to compete in the marketplace, where we're falling behind the

competition on. And they're helping us design this solution, Herbalife One so that we can put it in place over the next 3 years.

Jeff Van Sinderen^ Great to hear. It sounds like it's going to be phenomenal. Best of luck.

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

William Reuter^ You mentioned that pricing increased 5% on a year-over-year basis during the second quarter, but that didn't include much benefit of the June price increase. How large was the June price increase such to think about how much the year-over-year increase should be in the third quarter?

Alexander Amezquita^ So the global price increase was 10%, which went into effect in mid-June. There were some markets that were not part of that global price increase, including China, India, Vietnam and Malaysia for regulatory reasons and otherwise. So those will be going into place in Asia Pacific, in Vietnam and Malaysia, that was earlier this month in July. We're slated to have that price increase in India in September and I think also in Q3 for China. So other than that, the world received a 10% price increase in mid-June.

William Reuter^ That's very helpful. I can understand that with the shift in sales from July into June it may be very difficult to get any sources of data that indicate how consumers are responding to the higher prices. Is there anything you've heard from your representatives or that you've been able to see which can kind of give you a sense for how underlying demand may have changed or price elasticity?

Alexander Amezquita^ Obviously, we have ears to the ground on all of this in all of our markets and really trying to understand that. I think it would be too early for me to really echo any of those anecdotes at this point because they would just be that. So let us collect the data. We'll come back to you in the quarter, and we'll kind of -- we'll give you sort of what we're seeing with a little bit of substance behind those comments.

William Reuter^ Perfect. That's -- I can appreciate that. And then it sounded like the \$50 million that had been kind of expected to be used for share repurchase, that will be opportunistic debt repayment during the third quarter. I then heard you say that you were going to return to share repurchases in the fourth quarter with that \$50 million. Does that mean that you would not continue to opportunistically repurchase debt in the fourth quarter? Or it just didn't address that at all?

Alexander Amezquita^ Yes. No, we just didn't address it explicitly at all. What happens in the fourth quarter, if you look at the midpoint of our guidance, the fourth quarter of our 2021 falls off. So you'll see our target leverage -- leverage ratios start to improve in the fourth quarter, once fourth quarter 2021 rolls off. So really, the -- is to manage our gross debt a little closer to target now.

And the P&L should take care of itself to some degree in the fourth quarter. Obviously, if there's anything where we need to be a bit more prudent on our -- how much debt we're carrying, we'll certainly do that as we are now, but that's not in our expectation. So if we hit our guide, our expectation is we'll have sufficiently moved towards our target leverage, and we can reuse that excess cash back into our share repurchase program.

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

Hale Holden^ I had two quick ones for you. The net investment in the Herbalife One IT infrastructure build of \$200 million to \$250 million over the next 3 years, I was wondering if the total investment of \$400 million, is that just longer-dated? Or is there cost saves that offsets that to make the net number lower and how those numbers drives?

Alexander Amezquita^ The net investment is reflective of we are currently investing in a number of our legacy technologies, being technology tools that are out in the market today. So what we're talking about when we refer to a net investment, it's the reallocation of that expected spend into Herbalife One. Does that make sense?

Hale Holden^ Yes, it does. And then the \$50 million projected debt pay down in the third quarter, I was wondering if we should think about that going towards your variable debt or if you might go after deeper discount debt -- dollar discount debt.

Alexander Amezquita^ It will likely -- we have \$150 million drawn on the revolver right now, so we'll likely take the revolver down by the \$50 million.

Operator^ At this time, I would like to turn the call back over to Dr. John Agwunobi for closing remarks.

John Agwunobi^ Thank you very much. Thank you all, by the way, for participating in the call and for your questions. I just want to close with a few thoughts here. First, it is something -- we're actually internally pleased to see that our numbers are beginning to stabilize off of the April number as was reported, as was mentioned by both myself and Alex. That was important. But the real work is ahead of us. And I think I want to leave both our investors and our community, those that follow us, with the clear picture. We're going to fight for more. We're not satisfied with where we are.

We think it's good to see that things are stabilizing, but it gives us an opportunity now to focus on building into the future. We continue to project growth in Q4, as was mentioned. To get there, we're going to do some hard work internally and the teams are excited and motivated, both staff and our distributor partners out in the field. There is a sense of excitement. There's a sense of purpose that is tangible when you go to events, when you visit with distributors, when you talk with them one on one.

And so as we look to the next phase of our journey, our focus is on making sure that we build off of this foundation, that we generate growth and, ultimately, shareholder value. I look forward to talking with you again next quarter.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.