

## **Herbalife Ltd. (Q3 2023 Earnings)**

**November 01, 2023**

### **Corporate Speakers:**

- Michael O. Johnson; Herbalife Ltd.; Chairman & CEO
- Alexander R. Amezquita; Herbalife Ltd.; CFO
- Stephan Paulo Gratziani; Herbalife Ltd.; Chief Strategy Officer
- Erin Banyas; Herbalife Ltd.; Head of IR

### **Participants:**

- P: Chasen Louis Bender; Citigroup Inc., Research Division; Assistant VP
- P: Douglas Lane; Water Tower Research LLC; Head of Consumer Products
- P: Jeffrey Wallin Van Sinderen; B. Riley Securities, Inc., Research Division; Senior Analyst
- P: Karru Martinson; Jefferies LLC, Research Division; Analyst
- P: Linda Ann Bolton-Weiser; D.A. Davidson & Co., Research Division; MD & Senior Research Analyst
- P: Mary Ann Neale; Barclays Bank PLC, Research Division; Analyst
- P: Unidentified Analyst;

## **PRESENTATION**

Operator^ Good afternoon and thank you for joining the Third Quarter 2023 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, Sheri, and good afternoon, good evening, everyone. Joining us today are Michael Johnson, our Chairman and Chief Executive Officer; Stephan Gratziani, our Chief Strategy Officer; and Alex Amezquita, 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 statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended.

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 O. Johnson^ Thank you, Erin, and good afternoon and good evening, everyone. It's been a year since I returned to Herbalife, a company I believe in and I am passionate about. Since my return, we've accomplished a lot. We modernized our brand, cast a vision for Herbalife 2.0, met with nearly 125,000 distributors at 9 Extravaganzas. We reached a key milestone launching our all-new herbalife.com website, launched innovative products and our trends, they are improving.

We are in a transformational process that touches all parts of our business, and we're seeing progress. Rebuilding sales growth, that's obviously a key priority. Our net sales for the quarter were \$1.3 billion, and this is the third quarter in a row that our year-over-year net sales trends have improved. India continues to outperform, and EMEA has posted 2 consecutive quarters of year-over-year growth. Our return to growth in the U.S. and China is our primary focus.

In addition, we took proactive steps during the quarter to further secure our balance sheet and the number of our average active sales and along with our active preferred customers and non-sales leaders are also trending up. Alex will present the numbers for the quarter, and we can confidently say we are seeing momentum building.

Another key priority with my return was ensuring proper succession management. We've announced some key leadership changes over the last 6 months that are already beginning to move the needle and support our growth strategy and overall success. We have a strong management team in place, and we are continuing to build on that strength with the addition of key executives including the recent appointments of former Amway Executive Claire Groen as our Chief Human Resources Officer, and Susan Brown as our Head of Global Corporate Communications. Both Claire and Susan bring a wealth of experience to the company.

And as previously announced, Stephan Gratziani joined in August as our new Chief Strategy Officer, bringing more than 32 years of experience as a top independent distributor to the company. With Stephan's unique perspective, energy and understanding of what drives top line growth, it has helped us improve our understanding and efforts with the B2C portion of our business.

So let me explain. Since the company was founded in 1980, we've operated a B2B2C selling model with the company selling to distributors and those distributors selling to consumers. Over the past 43 years, our core investment strategies and tools have been focused primarily on supporting the B2B component of the business, while distributors focused primarily on developing their own tools and strategies for selling to the consumer as well as recruiting and building their own organizations.

Our strategies and priorities are evolving, and we are developing tools and platforms to help distributors better manage their customers. Stephan is uniquely positioned to lead this charge with our distributor leaders and empower the entrepreneurial spirit that is so critical to our sustainable growth. Stephan hit the ground running in his new corporate role and joins us today to share his areas of focus in his first few months.

We continued our world tour this quarter, which included 4 Extravaganzas in September alone. These events provide our distributors with a vision for the future, recognition for important achievements and the sharing of best practices that motivate and energize our distributor base. We believe these events set in motion new recruiting and retailing activity.

Over the course of 2.5 weeks, we met with nearly 33,000 distributors at events in Kazakhstan, Poland, Mexico and Brazil. In addition to the main events, we hosted mega workout sessions at both Krakow and Mexico City to kick off our new year long global "I'm with you" campaign. In Krakow, more than 4,000 distributors and their guests gathered together for an outdoor mega workout, truly putting our healthy active lifestyle focus in motion.

We continue to deliver our commitment to develop new and innovative products. When we met in August for the Q2 earnings call, we had launched HERBALIFE V, our first-ever vegan product line for the U.S. market. The plant-based product line was met with resounding enthusiasm and opened the door to a new group of customers and distributors. Sales have eclipsed our expectations, and by the end of September, we were sold out of 4 of the 5 products. Our distributors and our customers love this product.

In September, we continued the momentum and launched 3 new products. We launched Night Mode, which has scientifically shown to improve sleep quality in just 7 days and is available in select markets in Europe. In Brazil, we rolled out our all-new OnActive Drink, a powdered product developed specifically for adults over 40 to support vision, muscle, bone and immune health. And in Mexico, we introduced for the first time into the market 5 beverage enhancers, which are powdered drink mixes for use in nutrition clubs, Mexico's largest DMO or daily method of operation.

In October, we launched a turmeric-based drink that supports muscle recovery in joint health called Golden Beverage for our Latin American market, with the product now available in Bolivia, Ecuador and Colombia. All of these great products are backed by science, quality tested and easy to incorporate into a customer's daily routine. These product launches are a testament to our commitment to quality and innovation.

Another area we are gaining momentum and delivering on our commitments is with Herbalife One. We hit a key milestone in August with the launch of our all-new [herbalife.com](https://www.herbalife.com) website in Singapore. The new website has been well received by distributors and customers, and learnings from the launch are being used for continuous improvement to further evolve and optimize the content. We remain on track to complete the broader rollout of the new website to 40 additional markets that represent approximately 80% of our sales by the end of this year. This milestone is a critical step in helping us transform our business and propel us toward our next chapter of growth. I want to say thanks to the entire team who worked endlessly to bring this to fruition.

We've also been focused on the evolving GLP-1 trend, which we are monitoring very, very closely. There continues to be a lot of conversations regarding the drugs and their potential impact on many industries. We are actively engaged in discussions, both internally and externally, and evaluating the options that are best suited for Herbalife and our distributors. Regardless of the path we choose, we have an incredible opportunity to help people considering currently using or maybe coming off GLP-1s. Core strength of our distributors is helping individuals in their overall health and wellness journeys, whether it's losing weight, building muscle, developing better nutritional and healthy active lifestyle habits and/or supplementing

their nutrition to our products and our community. This is core to our brand and positions us as a healthy companion for an alternative to the medical approach.

Another area we are showing our commitment to health and well-being is with respect to diabetes prevention. According to the CDC, approximately 96 million Americans are prediabetic. This inspired us to develop a program that targets those at risk for developing Type 2 diabetes. We're excited to announce that we have recently been approved as a provider of the CDC's diabetes prevention program. We are going through the necessary steps to certify our internal health experts as master trainers, which will give us the ability to train our distributors to become certified lifestyle coaches to administer the diabetes prevention program.

As announced in mid-September, we're happy to welcome Herbalife independent distributor and Chairman's Club member, Rodica Macadrai, as a new member of the Herbalife Board of Directors. Rodica is filling the seat made vacant when Stephan resigned from the Board to become the company's CSO. With Eastern European roots and a strong knowledge of our business, Rodica brings a wealth of diverse experience to the Board. She has nearly 30 years with our organization in a global business that expands across markets in Europe, Asia Pacific, North America and Latin America. We look forward to Rodica's keen insights and contributions. I know she is going to be a valuable addition to our Board.

We've seen a lot of change over the past few years. These positive changes have us confident about Herbalife, more today than ever before. We have a strong leadership team and a strategic succession plan in place. Our future is bright. We're on a direct clear path to success. We told you last quarter that our trends indicated we would see year-over-year net sales growth in the fourth quarter and based on our line of sight today, our key indicators show this will indeed be the case.

And with that, I'll turn it over to Stephan, followed by Alex, and then we'll come back for closing remarks following the Q&A. Stephan?

Stephan Paulo Gratziani^ Thank you, Michael. I'm excited to be joining you and Alex today on my first earnings call. It's hard to believe I'm nearly 3 months into my new role. After working in the field as an independent distributor for over 30 years, it's been an exciting career move to have joined the executive team.

I chose to make this transition because I believe we are in a unique position and time in our company's history. As the third largest direct sales company in the world, we have proven that the combination of our products and the business opportunity are incredibly valuable for our customers and distributors globally.

As Michael mentioned, we are moving into a new era as a company, one where our focus will be more on the B2C portion of our business and supporting our distributors to be more effective and successful in the fast-moving world that we live in today. I've witnessed our markets evolve and change for over 3 decades. Most of the changes were driven by the evolution of technology and the accessibility to it. These changes created many opportunities for our distributors and for our company, although some were also disruptive in nature.

Herbalife distributor leaders are focused and committed entrepreneurs who are on the ground experiencing in real time the changes in the markets and adapting their DMOs and business flows to be as effective as possible. As we focus our efforts on further supporting the

distributors with the tools, training and platforms necessary to build bigger customer bases and attract more business leaders, we see the potential for unprecedented growth in the years to come.

During my first 90 days, a lot of focus has been on North America, China and Mexico. We've gone deeper than ever before in analyzing the business in these 3 markets and coming up with strategies to support our distributors on the road back to growth and momentum. North America is not only our most important market but also the most developed and diverse. We have multiple generations of distributors working with different demographics and in various business models. We've been working closely with groups of distributors who operate different models, such as nutrition clubs and developing bespoke solutions to better support their businesses.

We believe the more we partner and support our distributors in the B2C part of our business, the more effective their efforts become and the better the results will be. Although we have only recently started to focus on this in North America, we're beginning to see the impact.

China has also been a major focus. We spent more time with our Chinese service provider leaders in the last few months than we have in the last few years. The pandemic created a difficult environment for an extended period of time for our business in China. It also created a forced separation and isolation, which made it challenging to support the business from a distance. We're making up for lost time, and China will be one of our main focuses for the rest of the year in 2024 and beyond.

Mexico remains one of our most stable and important markets despite economic headwinds. With the highest percentage of nutrition clubs globally, we are focused on raising the productivity per club by providing distributors with innovative products and tools needed for continued growth. The newly launched beverage enhancers are a clear example of this.

One of the trends we find the most exciting for our company is the return of the healthy active lifestyle movement that was interrupted during the pandemic. Month to month, our distributors are leading more group workouts, building bigger communities and helping more people get in the best shape of their lives. Distributors have used weight loss marathons and different challenges over the last few years to attract customers and help them get results. These have primarily been online programs, but we are now seeing new innovative challenges gain momentum and start to make an impact not only online but also in person in local communities throughout North, Central and South America.

The last thing I'd like to touch upon is Herbalife One. As Michael mentioned, we reached an important milestone with the launch of our new brand site in Singapore. We're excited to see the other 40 markets come online this year with the distributor e-commerce solution to follow suit. Our focus will now turn to building a customer platform and community that will allow us to empower our distributors' businesses by increasing the value proposition of becoming an Herbalife customer.

Our distributors do an incredible job of adding value to our products through the services and the distributor difference they provide to customers. The more value we can add as a company to our distributors, customers and businesses, the more attractive their offers become in the marketplace. The more value we provide, the easier it is for distributors to make a sale, create customer loyalty and generate referrals, thus creating a virtuous circle. And at the same time,

the easier it is for distributors to get and keep customers, the more attractive the business opportunity becomes, which enlarges the virtuous circle. It's been a busy first 90 days, and I'm excited more than ever to be a part of Herbalife as we modernize and usher in this new era of Herbalife 2.0.

Alex, over to you.

Alexander R. Amezcua^ Thank you, Stephan, and welcome. We are thrilled to have you onboard. I'll begin my section with the key financial highlights for the quarter.

First, as Michael noted, our trends are continuing to improve and the third quarter marks our third consecutive quarter of improved year-over-year reported net sales trends. For the quarter, net sales were \$1.3 billion, down 1.1% compared to the same quarter last year.

Second, third quarter gross profit margin was 76.3%, and while the pricing actions we have taken over the past year have led to an approximately 160 basis point benefit to gross profit margin compared to Q3 of last year, we continue to be negatively impacted by the impacts of input cost inflation, which drove a 290 basis point headwind, as well as unfavorable sales mix and FX, each of which contribute to an additional 30 basis points of headwind year-over-year.

Third, Q3 adjusted EBITDA was \$163 million, with margin at 12.7%, which was a 20 basis point decline from Q2 of 2023, primarily driven by the unfavorable input costs and sales mix impact on gross profit margin, partially offset by our continued cost saving initiatives.

Fourth, adjusted diluted EPS of \$0.65 was negatively impacted by a \$0.07 9-month true-up for an upward revision of our full year 2023 tax rate, which was primarily due to shift in country mix from our previous expectations. We now anticipate a full year 2023 adjusted effective tax rate of 25%.

Fifth, we continue to take strategic actions related to our previously announced transformation program. Based on the actions we have implemented through September 30, we now expect to deliver an incremental \$15 million of cost savings in 2023, bringing our expected program savings for this year to at least \$60 million, of which \$20 million was realized in Q3. We continue to expect to deliver total program run rate savings of at least \$90 million in 2024 and beyond.

Despite challenges that we continue to experience from an input cost and gross profit perspective, we are highly focused on our overall margin profile through productivity initiatives and SG&A. While our transformation program has been our flagship program to address productivity initiatives, we will continue to press on opportunities to be more organizationally effective.

During the third quarter, we recognized an incremental \$5 million of pretax expenses in SG&A related to the program, primarily related to employee retention and separation costs, bringing our total program to date cost to \$67 million. These expenses are excluded from our adjusted results. We continue to expect to incur total program pretax expenses of at least \$75 million.

Sixth, during the quarter, we also took actions to further secure our balance sheet and repurchased approximately \$66 million of our 2024 convertible notes at a discount. And seventh, as reflected in our results, the strengthening of the U.S. dollar versus foreign

currencies continues to have a negative impact on our profitability. When we met during the Q2 earnings call, we had expected to see an FX tailwind in the fourth quarter of 2023. However, due to the strengthening of the U.S. dollar since then, we are now expecting an FX headwind in the fourth quarter.

Moving to Slide 8. Reported net sales for the third quarter declined approximately \$14 million or 1.1% versus the same period last year. Favorable FX movements primarily for the Mexican peso resulted in an approximately 40 basis point currency tailwind year-over-year. We continue to deliver on our commitment to return to growth. This is the third consecutive quarter that we have improved our year-over-year reported net sales trends. Based on this trend and others, internal indicators continue to point to our return to top line growth in the fourth quarter of this year.

Adjusted EBITDA for the third quarter was \$163 million, with 12.7% margin and was impacted by higher input costs and unfavorable sales mix on gross margin, partially offset by higher pricing and continued cost saving initiatives. Third quarter diluted earnings per share was \$0.43 with adjusted diluted EPS of \$0.65, which was negatively impacted by a \$0.07 9-month true-up for an upward revision of our full year 2023 tax rate. As a reminder, the true-up represents our current full year expectations against the amounts previously reported in the first half of 2023.

Operating cash flows for the third quarter were approximately \$80 million driven by approximately \$69 million of net income adjusted for noncash items in the period, along with our continued commitment to optimize our working capital, which contributed approximately \$11 million of favorable impact in the quarter. Cash on hand was down \$31 million from June 30 to \$496 million at September 30, primarily reflecting the early \$66 million repurchase of a portion of our 2024 convertible notes.

Turning to Slide 9. We see the drivers of our year-over-year change in net sales. Pricing provided an approximately 630 basis point benefit in the period as a result of price increases implemented over the past 12 months in certain markets to address market-specific conditions and were generally in line with local CPI increases. The pricing benefit was partially offset by approximately 220 basis points of unfavorable country mix due to increased sales in India and lower sales in the U.S. and China relative to our overall net sales portfolio.

Moving to the adjusted EBITDA margin bridge on Slide 10. Adjusted EBITDA of \$163 million resulted in a margin of 12.7%, 140 basis points below the third quarter of last year. Adjusted EBITDA margin benefited by approximately 190 basis points from the pricing increases we have implemented over the past year. However, higher raw material costs and manufacturing overhead costs continued to impact our results, which drove an approximate 290 basis point margin headwind versus Q3 of '22.

Within SG&A, we benefited from an approximately 50 basis point improvement in promotional spend primarily due to the timing of spend and cost efficiency actions. Also within SG&A, salaries and bonus contributed an approximate 10 basis point headwind. The benefits we are realizing from the cost savings related to our transformation program were offset by increased wages and bonus accruals in the current period versus Q3 of last year. Currency was an approximate \$2 million headwind on adjusted EBITDA during the quarter resulting in an approximate 30 basis point negative impact on adjusted EBITDA margin.

Turning to Slide 11. We are encouraged that our average active sales leaders are trending up. As a reminder, this metric shows the monthly average number of sales leaders that have had activity from either their own purchases or those of their preferred customers or non-sales leaders downline. For the third quarter, we had approximately 467,000 average active sales leaders, which was up 2% from the second quarter of '23 and 8% over the third quarter of 2019.

Moving to Slide 12. We can see the trend in the number of unique preferred customers and non-sales leaders that have purchased product during each of the respective quarters. We are also encouraged to see the continued upward trend on our active preferred customers and non-sales leaders, which are up 10% from the fourth quarter of '22 and have been steadily increasing in 2023; whereas in 2022, our actives declined throughout the year.

We continue to believe this is evidence that the new innovative DMOs that are being introduced by our distributors are taking root. And our distributors are reengaging with their organizations and customers. The financial trends as well as our underlying business trends are what gives us the confidence that we will return to net sales growth in the fourth quarter.

Moving to Slide 13. We highlight the age demographics of our average active sales leaders, along with active preferred customers and non-sales leaders. Our distributors and customers span across 5 generations, with approximately 50% of our active sales leaders and nearly 60% of our active preferred customers and non-sales leaders represented by Millennials and Gen Z. We believe this is evidence that our products and business opportunity resonate with the younger generation. We're highly focused on continuing to recruit and retain Millennials and Gen Z. The new and innovative DMOs being introduced by our distributors, particularly those centered on healthy active lifestyle, are also helping us to connect and engage with this age demographic.

Moving to our regional results for the third quarter. As we have said, our trends are improving. Three of our regions had year-over-year growth in the third quarter, both on a reported and on a local currency basis. EMEA was up 5% year-over-year on a reported basis, up 3% on a local currency basis, and this is the third consecutive quarter that EMEA has reported improved year-over-year net sales trends.

In Latin America, reported net sales were favorably impacted by FX, primarily by the Mexican peso. Mexico's reported net sales were up 20% compared to the prior year, while up 1% in local currency. Year-over-year volume declines in Mexico were more than offset by the 2 price increases implemented in the market this year, 5% in January and 2% in June. In mid-September, we began experiencing importation delays in Mexico as a result of the government delaying timely approval of importation permits, which may impact our future inventory supply and future sales in our Mexican market. We continue to work closely with the Mexican government to try and obtain the necessary timely importation approvals and minimize the risk of disruption in our Mexico market.

In the Asia Pacific region, net sales on a local currency basis were up 5% year-over-year, while reported net sales were up 2% due to unfavorable fluctuations in FX. India continues to be the growth driver in the region, which was up 12% on a reported basis and 16% in local currency.

In North America, the decline in reported net sales was primarily driven by the U.S. market's 13% year-over-year decline. The U.S. market continues to be a primary focus for us. The



regional team is highly engaged in taking numerous actions to launch new initiatives to drive recruitment, stimulate engagement, improve productivity and support the return to growth.

We are beginning to see positive signs in some of our key states as a result of these initiatives. We have also have distributor working groups in place to accelerate the sharing of best practices. While our turnaround efforts are beginning to gain traction, it will take time to see meaningful results.

In China, reported net sales improved for the second consecutive quarter this year. Year-over-year reported net sales were down 19%, which is primarily due to tough comps versus the prior year due to the 5% price increase implemented in August of '22. Net sales in local currency were down 14%.

China is another key market we are laser-focused on. Since joining us in August, Stephan has been working very closely with the regional team and distributors to develop a strategy to identify key growth opportunities to get that market back on track.

Turning to our capital structure and cash position. During the quarter and in line with our objective to reduce our nominal debt levels, we repurchased approximately \$66 million of our 2024 convertible notes at a discount. The remaining \$197 million principal balance comes due in March of 2024, and we plan to continue to park cash with the free cash flow we generate between now and then and use the revolver to cover any difference. Our \$330 million revolving credit facility remains fully undrawn. We ended the quarter with a 3.8x gross leverage ratio, and we were fully compliant with all of our debt covenants.

CapEx for the 9 months ended September 30 was approximately \$100 million, including our investments in Herbalife One. We now expect total CapEx for the year to come in around \$120 million to \$160 million, inclusive of Herbalife One, moderately below our previous estimate. Our capital allocation and long-term use of cash priorities remains unchanged. Our #1 priority is to service our debt as we work towards investment-grade metrics and a targeted gross debt leverage ratio of 3.0x, and we will continue to seek opportunities to reduce our nominal debt levels as we approach that target.

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

+++ q-and-a

Operator^ (Operator Instructions). And our first question will come from the line of Chasen Bender with Citi.

Chasen Louis Bender^ Want -- I'd like to start -- I'd just like to dig in on the volume points and active sales leader trends. At the total company level, clearly a sequential improvement from 2Q but was curious is there any way to quantify or dimensionalize how much of that change was attributable to all the changes you've made to the business, call it, over the last 10 months at this point versus just the normal seasonality that is typical for the business.

Alexander R. Amezcuita^ Chasen, thanks for the question. This is Alex. So if you look at the average active sales leaders, and obviously, for the overall company, those are -- it's going in a good direction, and we're pleased with that performance. It really is a region-by-region activity, what's happening in those markets. A lot of the commentary that you heard around the

engagement, the excitement, the strategies regarding value proposition and getting distributors back into a healthy active lifestyle, all of those activities at a micro level, strategic level are what is helping to improve those trends.

So when we talk about improving trends, getting back to engagement, getting back to what -- building communities, the part of what we think, as we think about Herbalife, is our core competitive advantage, it's those types of activities that are helping to move that average active sales leaders. Now we have still a lot of work to do in some of those -- in some regions, but overall, we're pleased in the direction that we're moving.

Operator^ And that will come from the line of Jeff Van Sinderen with B. Riley.

Jeffrey Wallin Van Sinderen^ Realizing there are various components. But when do you anticipate gross margin beginning to inflect positively year-over-year? And I guess what do you see driving that to happen?

Alexander R. Amezcuita^ Thanks, Jeff. So the year-over-year and the sequential performance on our gross profit margin is a little bit under our expectations. Now some of that was due to FX and as we normally say, we can't -- we don't forecast FX. We give a forecast of how FX might impact our financials based on the current rates. When we were here a quarter ago, we thought FX would be helping us in the second half of the year, but the dollar significantly strengthened. So when we look at our gross profit margin and the results that we looked at Q3 and sort of the expectation for the rest of the year, there is pressure on the gross profit margin from where we thought we were going to be 3 months ago. So we'll continue to monitor how that situation arises.

The other impact that is showing up in what we posted this quarter, is the mix of our countries. And we continue to have markets like India outperform our expectations and other markets perform under expectations. North America, for example, is a bit behind where we thought we would be this quarter.

With that said, positive improvements in the overall market. We hope to see gross profit expansion as our markets continue to perform. But at this present time, that's a bit of the pressure that we're seeing in our gross profit margin. So I would say, overall, our gross profit inflection, as you asked, will improve as we start to see volumes continue to increase, and we continue to see some moderation in our input cost inflation. Those are really the drivers, which are a little bit longer dated than 2023.

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

Linda Ann Bolton-Weiser^ So it's interesting to hear about your increasing focus on the B2C aspect of the business. And I was curious, are you able to say like what percentage of your sales now are kind of like placed directly by the consumer on your website or something like that? Is there any numbers you can give about the percentage of your business that's like that now?

Alexander R. Amezcuita^ Thanks, Linda. There -- we have a lot of those metrics in terms of how different markets perform from a direct ship, from an online ordering, from an effectively an e-commerce solution. Obviously, all sales go through our distributors but sort of platforms in which a customer can order through a company-supported e-commerce solution.

However, we don't disclose any of those numbers. We use those internally for our own strategic decisions. We can think about in the future if any of those types of metrics might be useful to talk about publicly, but we don't have those available at this present time.

Linda Ann Bolton-Weiser^ Okay. And can I ask a second one if I may?

Alexander R. Amezcuita^ Sure. Sure. And by the way, for all the -- anyone -- I know that we said that you could only ask one question. Please ask the question. Ask away. There's no need to limit to just one. Sorry about that. That was a miscommunication.

Linda Ann Bolton-Weiser^ Well, I was just wondering, when you talked about -- you mentioned the new DMOs that are kind of driving some of the improved performance. Can you be more specific and give some examples of specifics that those improving trends?

Stephan Paulo Gratziani^ Sure, Linda, Stephan here. One of the things that we're seeing that I mentioned is the healthy active lifestyle return. And just for a bit of context, if we go back pre-pandemic, and I know it's kind of talking about the pandemic, it's kind of tiring. But there was a lot of activity that was taking place at that time in terms of what we consider to be healthy active lifestyle, meaning attracting people, having them participate and work out, building the communities locally.

When the pandemic hit, that went away for the most part. And so people, they kind of were forced into an online environment, which had its benefits because, at that time, there was a lot of eyeballs that were looking at what was going on and people attracted a lot of people, but the stickiness in the community aspect of it, it just wasn't there. It's not the same thing.

So we are seeing a resurgence now of healthy active lifestyle activities. And one of them, I don't want to go too much into the details and just kind of just overall talk about, is really this new challenge that's actually called the We Do challenge, which is actually gaining a huge amount of traction for us. And over a period of months, it's been something that not only here locally in North America but also has been picked up in Mexico and South America. And we're not going to report on the numbers, but the numbers for us are very promising.

And the numbers we talked about, it's the amount of coaches or distributors that are participating and the amount of customers that they're bringing in. So all of that translates over time. It's still, over the last few months, if this has been happening and picking up momentum, but we know, based on the numbers that we're seeing now in the month-to-month overall, directionally where things are headed, and we can directionally say where we know the impact is going to be.

So these are the types of things. It's not just that. That's one of the very exciting ones. We've got more workouts happening worldwide now than we've had since 2019 probably, and the trend just keeps growing. So those are the types of things that are out there, and there are others, but we won't take too much time to talk about them.

Operator^ That will come from the line of Anna Lizzul with Bank of America.

Unidentified Analyst^ You have [Christian] on for Anna. Can you provide us with an update on consumer sentiment by region? And where do you see the biggest differences in terms of performance in the quarter versus internal expectations?

Alexander R. Amezcua^ Yes. No, I mean, listen, that's a little -- I'll defer you to the folks that report on consumer sentiment rather than my opinion on consumer sentiment. What I could say is region to region, we have different markets in their evolution post pandemic, a lot of the activities that Stephan just mentioned and how they're taking hold in each relative markets. We're seeing net sales growth in 3 of our 5 regions. We're anticipating as a company to see net sales growth in the fourth quarter. So I'd say, overall, we're trending to a positive level with engagement.

Obviously, with that engagement is consumers that are willing to see the value proposition that Herbalife nutrition -- that Herbalife has to help people with their nutrition, to help them with their healthy active lifestyle, to help them in all the ways in changing lives. So we're really excited about where we're heading.

Operator^ And that will come from the line of Karru Martinson with Jefferies.

Karru Martinson^ In regards to the major Extravaganza events that you held last quarter and this quarter, could you talk to us of what you guys see whether it be actual sales numbers that you'd see a lift from these events? And how does that sustain itself as we go forward because you're just trying to think about what drives us to that growth in the fourth quarter, what turns around North America? It does seem like we're very focused on these in-person events. But just trying to get a quantification of what does that do to the bottom line.

Michael O. Johnson^ So I'm going to start, this is Michael, and I'm going to let Alex and Stephan jump in if they want. So these distributor events are a reemergence, if you will, of Herbalife right now. During the pandemic, and I hate to keep referring to something that's now a year out, but we were shut down on these events. And getting people, as you know and you've heard us say, person to person to share ideas, to get motivated and inspired, to see business methods that may be useful for their businesses and a chance to meet and work with new distributors as well as their uplines, all valuable parts of an Extravaganza.

The sales lift we're seeing, it's -- so we launched the vegan product in San Antonio, and we sold out of this product. So it's a fantastic sales lift. We've got a challenge with supply chain, obviously, to keep us in stock and in supply of that, and they're doing a fantastic job. So we're seeing lift there. We're seeing lift of new customers and seeing lift of new distributors who are coming to the company because of a new product offering.

The momentum that we're starting to see into the fourth quarter, I'm going to let Alex address some of the fundamentals of that and Stephan, if he wants to jump in, the momentum that we're seeing in the marketplace goes to what Stephan said about more people engaged in transformational style of operations in terms of the distributorship, people coming and getting healthier, people coming for a workout, people coming to do what we do best, is create community around our product.

It's something that we believe we have a unique advantage of in the marketplace through our nutrition clubs, through our distributors' activity, through We Do transformations and other types of healthy active lifestyle, outings. We're seeing through certain states in North America, and we're seeing it take hold on a global basis. These are the things that all spring from an Extravaganza. And they spring from that idea of sharing, and they spring from us getting back to this community effort around healthy active lifestyle.

So Alex, I'll turn it over to you.

Alexander R. Amezcuita^ Yes. Thanks, Michael. So I think, Karu, the question was then how does that then translate into numbers. And so whenever we've talked about sort of the financial model or the financial profile of Herbalife, if you end at net sales, the next step before that is to see growth in your active sales leaders. Before that is to see growth in your customers, your preferred customers and new folks coming into the organization.

As we're seeing these events happening, we're seeing all of the trends that ladder up to that net sales growth out into the future. So we know it's coming. The trajectory and the slope of that trajectory is a little bit difficult to forecast right now, but we know it's moving in a direction that suggests net sales growth in the fourth quarter, and then we'll see how that translates into 2024 when we meet with you again in February.

Stephan Paulo Gratziani^ No, I was just going to add that there's 2 components to this. So as Michael said, 125,000 people around the world in the events. There's an aspect of inspiration and motivation and validation. When people are all together seeing what's happening within their markets and either other markets, and they're seeing the models that people are going to market with. And so there's the aspect of, yes, being in the room. But then there's the lag of them going back to their homes, their cities and starting to implement a lot of the different models.

And so when we look at the regions, really what you see is you see different levels of implementation of models. They're having a level of effectiveness in the marketplace. And so I think if you look at India, they did an amazing job through the pandemic and the transition and figuring their models out. If you look at a region like EMEA, it's also showing signs of distributors figuring out the models in the marketplace that are the most effective.

And so this is the situation. It will take a little bit of time because people are -- some of the models are new. The We Do challenge that we mentioned, for some, it's only been a month that they've been working with it. For others, it's been a couple of months. And so there's always this kind of lag to when it translates exactly into numbers.

But again, what we're seeing based on the activities, based on the participation -- by the way, not just at Extravanzas, it's all of the other events that are taking place, some of them very specific to DMOs, which is really that level of support at the DMO and the B2C level that we're talking about. So again, a little bit of a lag. I can imagine that by the next quarter, we'll have more to share.

Operator^ And that will come from the line of Hale Holden with Barclays.

Mary Ann Neale^ This is Mary Ann on for Hale. You've discussed your focus on the U.S. market given its recent underperformance. Could you provide some clarity around what is driving that underperformance and maybe any changes in consumer behavior that are negatively impacting results there?

Alexander R. Amezcuita^ So I think we've kind of hit that on this call. I think, generally, different markets have been coming out of the pandemic in different ways. The U.S. is no different. The U.S. is behaving in a way a little bit different than other markets. But the answer

and the solution is the same. It's engagement. It's getting back to healthy active lifestyle. It's making customers understand the value proposition that Herbalife has. It's the engagement that we're seeing at Extravanzas and how that trickles through to further effectively showing the value proposition of Herbalife. So that's all happening.

Yes, the slope has been -- in other words, the recovery has -- a little bit slower than we would have hoped. But nonetheless, the trends are moving in the right direction, and we're encouraged that we will be back to growth in the future.

Operator^ (Operator Instructions) That will come from the line of Doug Lane with Water Tower Research.

Douglas Lane^ I just want to go back to China a little bit. I know it's only 7% of sales now, but it used to be, 5 years ago, 20% or more of sales. So it's an important market, and I just want to get a better sense on 2 things. One, do you think we're near an inflection point here? I noticed, sequentially, your sales have improved first quarter, second quarter, third quarter this year. And then secondly, Michael, you've been talking about China forever, and I've always been very bullish on it. And I just wondered if your longer-term perspective on China has changed given the difficulties there in the last 5 years.

Michael O. Johnson^ Doug, it's Michael. Long time no see, no talk. China. China is one of those great enigmas, but it's a great opportunity for us. And if any market got hurt really badly during the pandemic, it was China, where we were highly, highly leveraged in the business of nutrition clubs, and they've got different names, and they've got different styles in that marketplace. But regardless, when China shut down, it wasn't like any kind of shutdown that any of us in the Western world experience, couldn't leave their apartment, let alone operate a business in brick and mortar. So that is coming back slowly differently.

Stephan has been with the regional management team as well as with the distributors there who he knows very well. We brought in a few other distributors to sit down and map out a progress and a plan for the future in China that's going to change some of the way we go to market. We're going to look at different channels of distribution, different styles in which our distributors will be rewarded. The opportunity there, I believe, is still immense.

There is a huge under -- should I say, underemployment in 26 year old and unders in that marketplace. It's staggering. The opportunity for us to bring a business opportunity and a health opportunity in that market, I believe, is still alive. It's going to take a little time for us to get back on track there. But believe me, and I've seen the action and the activity, and we're looking at a strategic plan there, that I believe will get us back to maybe not to the numbers we enjoyed in 2017 and 2018 anytime soon, but it will get there. And I'm pretty confident that, that marketplace will turn and become a vital part of our future in Herbalife. Stephan, do you want to add anything to that?

Stephan Paulo Gratziani^ Just to support what Michael's saying, I think that the pandemic and the tail there was just extremely long. I can tell you the timing also was very impactful, opening up thousands of nutrition clubs just before and then having a period of 2.5 years where they couldn't operate. So I will say that the distributors there are focused. They're excited. The market opportunity is huge. And it's really just a question of figuring out post pandemic, again, I hate to say it, but it's just the reality of where we need to go and how we need to move there.

And so I would say that the distributors, they see the opportunity. The management team sees the opportunity. It's just a question of giving it the time and attention that it needs, and that's what we're focused on. So Alex, I don't know if you want to add something.

Alexander R. Amezcuita^ Yes. And so, Doug, I think you were looking for an inflection point. I believe we have seen an inflection point. We had a second quarter larger than a first quarter, which has some seasonal impacts. Typically, second quarters are larger than first quarters, but you also had a third quarter larger than second quarter on the top line. So it feels to us like we are -- we've seen that, the bottom, and we're continuing to grow from this base. For fourth quarter, don't expect necessarily the fourth quarter to be larger. There is seasonality still in China, but again, from a trend basis, I think if you look at our third quarter results and you look at some of the supplemental data, you'll be encouraged by the -- by what's happening in that market.

Douglas Lane^ That's very helpful. And just a quick follow-up. Given that your business definitely feels like it's stabilizing, is there any thought to resuming giving guidance here?

Alexander R. Amezcuita^ We'll come back to you next quarter on that. Obviously, we're still in a world where sort of the volatility from different shocks around the world is difficult to forecast at this point, but we'll come back to you in a quarter to see if there's an update to that.

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

Michael O. Johnson^ So thanks, everyone, for being on the call joining us and asking the questions. Our vision in this company is pretty straightforward. We are going to be the premier health and wellness company and community. And this continues to evolve, the style in which we go to marketplace. This is a 43-year-young company, which started in 1980. The business practices then, the fundamental ones of use, wear, talk, getting people face to face, building a community around [product], those are all still the same.

The opportunities for us in the future are to expand ourselves across multiple channels about making sure that we build a model that is relative to the consumer, to our business partners, to our distributors to make sure that they can profit and build an incredible business in their lives. We've seen so much success in 43 years, and we see the opportunity for us only getting better.

I want to welcome to our team, Susan and Claire and Stephan. We have brought new ideas into this company already. We are already building for a future. We visit next week with our distributors in Japan, our leadership. We'll sit down with them and share with them what we shared with our Board of Directors in the strategic plan last week. That shows us getting back to growth, shows us building this company stronger. Building on that promise that we made you that the fourth quarter will be a net sales gain for us in the marketplace.

We still believe in that. We still see that coming. The indications are very good. We always are going to have challenges in the 95 market business. The thing that just came up in Mexico with the potential suspension of our product into the marketplace got alleviated today on that.

We still will have to refill some of that pipeline. But this is business in the world today. This is the way we operate. This is the challenges that we face. But we're going to continue how we

can discuss to build and drive our communities better to ensure that we bring this company to the next level.

We're in a great journey here. This is really something that's exciting. I'm excited about it. I know that all the senior team and all of our distributors share in the fact that we know we've got work to do to continue our growth trajectory, but we also know that that's possible and its potential is great, and it's right in front of us.

So we're engaged, committed. We're on the right track, and we've got momentum. So we're going to stay the course. We're going to change the course when we need to and remain committed to help people live their best lives. So I want to thank you all for your continued support. It wouldn't be me if I didn't say let's go Herbalife at the end. Thank you all very much.

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