

## Herbalife Ltd. (Q2 2024 Earnings)

July 31, 2024

### Corporate Speakers:

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

### Participants:

- Jeff Van Sinderen; B. Riley; Analyst
- Chasen Bender; Citi; Analyst
- Hale Holden; Barclays; Analyst
- Linda Bolton-Weiser; D.A. Davidson; Analyst
- John Baumgartner; Mizuho Securities; Analyst
- Karu Martinson; Jefferies; Analyst
- William Reuter; Bank of America; Analyst

## PRESENTATION

Operator^ Good afternoon. And thank you for joining the Second Quarter 2024 Earnings Conference Call for Herbalife Limited. (Operator Instructions) As a reminder, today's conference is being recorded. I would now like to turn 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^ Good afternoon and good evening, everyone. And thank you for joining us.

Our financial foundation is strong and continues to improve.

In the second quarter, we exceeded our adjusted EBITDA expectations. And while we missed our top line guidance, which was impacted by a higher-than-anticipated FX headwind, we are continuing to execute on our initiatives to drive top line growth. Let's take a look at our financial performance.

Net sales were \$1.3 billion, up slightly versus quarter two of 2023 on a constant currency basis, while down 2.5% on a reported basis due to 270 basis points of FX headwinds.

Our adjusted EBITDA of \$180 million exceeded our guidance, and we are raising our full year expectations. Adjusted EBITDA margin was 14.1%, up 120 basis points year-over-year. Quarter two marks our highest adjusted EBITDA and adjusted EBITDA margin in seven quarters.

We further reduced our total leverage ratio to 3.5x at the end of June and remain committed to reducing our total leverage ratio to three by the end of 2025.

John DeSimone will do a deeper dive into the numbers later on the call but let me highlight some of what we accomplished in quarter two.

We have substantially completed our reorganization.

We have the right people in the right roles and our leaders and employees are incredibly engaged and committed to our vision of becoming the world's premier health and wellness company community and platform.

We'll continue to focus on refining our business to drive even more efficiencies and cost savings.

We welcome e-commerce and media technology executive, Perkins Miller to our Board of Directors.

Perkins has a proven expertise in leading large-scale digital transformations, and he's done it for some of the biggest brand names, NBC Sports and the NFL. Perkins' experience is invaluable to us, especially as we continue our digital transformation.

Our focus on distributor recruiting through programs like Herbalife Premier League are working.

We've advanced and evolved our training programs as part of our strategic alliance with Eric Worre to excite, motivate and provide high-level training and resources to our distributors.

As I said, these are the highlights.

Now I want to talk a little bit more in detail about the heart of the company, our distributors and what we're doing to excite, engage and empower them to grow their businesses. Under the leadership of our President, Stephan Gratziani, we're implementing new and innovative initiatives for our distributors, and we're seeing some very positive trends.

Importantly, in quarter two, our worldwide distributor recruiting was up year-over-year, reversing 12 consecutive quarters of decline, thanks to programs like the Herbalife Premier League, which launched earlier this year.

As part of our new approach to training and supporting our distributors.

In August, we will launch our new mentorship leadership development and accountability program for our top leaders in North America which is unlike any program we've ever had at Herbalife or in the industry for that matter.

This training will be focused on, among other things, supporting the implementation of successful go-to-market strategies and providing one-on-one support to distributors by sharing business metrics and creating an accountability structure with their peers, distributor leadership and the company. This is the next phase in continuing to upskill our distributors and better support them through a key account management program.

Stephan has engineered this and is leading our Mastermind program, and we'll provide more details on this later in the call.

As you know we have a long-term relationship with Eric Worre, one of the most trusted and influential thought leaders in network marketing. Eric has been working with us for a little over four months and has already made a positive impact.

He's provided hours and hours of training and events around the world including extravaganzas in APAC, Latin America and North America, just to name a few. And speaking of extravaganzas, over the last three months, we've hosted events in Thailand, Colombia, India and the U.S.

We had record attendance numbers in APAC, where approximately 24,000 people convened in Bangkok, and in India, where events in Bangalore and Delhi drew nearly 36,000 people on a combined basis to their first-ever multi-city extravaganza events. These events were the perfect time to get our distributors excited about the broad and diverse range of products we continue to roll out globally, from nutrition and performance products like Herbalife24 Creatine and Herbalife Protein Chips in North America to beauty products like vritilife skin care line in India.

As I mentioned, Stephan is going to talk more about the positive distributor trends and some exciting new ways we're upscaling distributors, supporting distributor leaders and creating more productive, relevant DMO business flows including enhanced support for Nutrition Clubs a key differentiator for Herbalife.

This is an exciting time at Herbalife, and exciting time in the world of sports. Herbalife is the ultimate nutrition support behind some of the most legendary champions and teams in the world. These athletes dedicate their lives to their chosen sports and we dedicate ourselves to fueling their pursuit of greatness by providing the best nutrition products.

We are incredibly proud of all our sponsored athletes, which is why we just launched our "Fueling The Best" campaign, highlighting their accomplishments. You'll even see some of them competing this summer in the Olympic and Paralympic games where we are fueling 33 athletes in seven teams.

These athletes are important brand ambassadors and a testament to the advancement delivered by our science-backed products.

We believe in them, and we're hoping to bring home some gold.

We also believe in our employees, our distributors, our business model and our products.

We believe we can and continue to change and empower people's lives. Most of all, we believe the transformative journey we are on.

And we believe in our vision of becoming the world's premier health and wellness company community and platform.

It's going to take a little time, but we're well on our way.

Now I'm going to turn it over to Stephan, who will give more details on why we believe so strongly in Herbalife and in our future.

Stephan, over to you, my friend.

Stephan Gratziani^ Thank you, Michael.

On our last earnings call we shared some early recruiting numbers after the launch of the Herbalife Premier League at Summit in mid-March.

Now I'd like to share some details on how the quarter developed.

As Michael mentioned in his opening comments, new distributor numbers were up in Q2, following 12 consecutive quarters of year-over-year declines. This is an early positive sign as new distributor recruiting, especially on a consistent and prolonged basis, is a driver for future growth.

Let's have a look at the numbers.

As you can see on the left side of Slide 8, Q2 had significant sequential improvements over Q1 across all regions, up 26% worldwide. More importantly, Q2 year-over-year recruiting was up in every region, with the exception of China, which I'll talk about in a minute. North America recruiting was up 15% over Q1 and 23% over Q2 of last year. Latin America was up 30% over Q1 and 34% over 2023.

EMEA was up 15% over Q1 and 9% over the same quarter last year.

Asia Pacific was up 40% over Q1 and 11% over Q2 last year. And China was up 10% over Q1 and down 3% over the same quarter last year. Those are significant improvements across the board. And now let's talk about China.

When the Premier League program was launched in China, we chose to focus on the acquisition of preferred customers instead of sales representatives. This was due to the timing of the launch of a new preferred customer loyalty program. Unlike the rest of the world, where the Premier League qualification includes recruiting 10 first-line distributors, in China, the program launched with the qualification based on adding 20 first-line preferred customers. This led to significant focus on preferred customers, which impacted the level of recruitment of new sales representatives in the quarter.

During Q2, we believe we accomplished what we set out to do which was to create enough inertia to reverse the previous 12 quarters of year-over-year declines.

By creating a long-term strategic alliance with Eric Worre making his training and expertise available to our distributors, in combination with the launch of the Herbalife Premier League, we have successfully refocused and reinvigorated our distributor leaders. This is illustrated not only by the growth in recruiting that we see overall, but by the level of those in the marketing plan who are doing the recruiting.

If we look at the right side of the slide, you'll see the recruiting growth by the different levels of distributors within Herbalife. Note, China has been excluded due to its different business model.

At the top of the chart, you will see our President team members, who have typically built the largest organizations in the company.

All the way through the distributor, which is the entry level of the marketing plan.

As you can see, our President team recruited 66% more distributors in Q2 over Q1 of 2024 and 72% more over Q2 of last year.

Our next level of leadership, our Mill team had the second highest percentage increase of recruiting, up 62% over Q1 and 54% over last year.

Followed by the GET team, which was up 48% over Q1 and 40% over Q2 of last year. This is good for the business.

As these three groups of leaders, which we refer to as TAB team members, typically have the longest tenure in the company, lead the largest sales organizations and know how to support new distributors with the best go-to-market strategies.

We consider this a positive sign that our top distributors are engaged in leading the way in new distributor growth. We are about to launch a program for this group that we believe will help drive new customer and distributor growth helping them achieve even more success within their organizations. A final comment on the recruiting metrics before we move on.

One quarter of new distributor growth following 12 consecutive quarters of year-over-year declines, is only the beginning of our journey of our return to volume growth.

We are going to build on this trend step-by-step, quarter-by-quarter.

Now I'd like to talk about the program I referred to for the TAB team that Michael also mentioned.

We are about to launch in all new mentoring, leadership development and accountability program that we believe will be a game changer. This program, which we refer to as the Mastermind program is like nothing we have ever done before and is geared towards creating sustainable growth and increased productivity.

It will address two important areas that make the biggest difference in helping distributors succeed long term.

The first is supporting them and leveling up their skills and further developing their leadership. And the second is ensuring that their go-to-market strategies or DMOs are always evolving and staying effective and relevant in the current marketplace.

In late August, we will launch the Mastermind program to our top distributor leaders in North America and we will later expand it into other markets. Eric Worre and I,

alongside a team of some of the most successful Herbalife distributors have designed the program, which will deliver monthly actionable comment in coaching. Participating leaders will be part of a peer accountability group and will have a personal key account manager to support them with metrics and data to help them increase sales, further drive recruiting growth and expand their businesses.

We're excited about this program, which could potentially reach thousands of our TAB team members in North America.

We're encouraged by this first quarter of new distributor growth and we see a lot of potential in this new Mastermind program launching in North America in August.

We also have a lot of exciting things happening in other markets. This year in Mexico, we've had two new Chairman's Club and 11 new President team members qualify.

It's been years since we've seen these types of numbers in Mexico.

In Europe, we continue with the DMO master classes and the models are gaining traction in multiple countries.

In Latin America, we launched a pilot program aimed at stimulating growth and the markets have responded positively, which John will discuss briefly, and India continues to outperform. With that, I'll turn it over to you, John.

John DeSimone^ Thank you, Stephan.

I'll begin with our key financial highlights on Slide 10 before getting into more details. Net sales for the second quarter were \$1.3 billion. The decline versus last year is driven by 270 basis points of FX headwinds.

On a constant currency basis, net sales were up slightly.

And as Michael stated, our top line was more significantly impacted by FX headwinds than we had anticipated coming into the quarter.

Our Q2 adjusted EBITDA was \$180 million and exceeded our guidance range of \$140 million to \$160 million. Adjusted EBITDA margin was 14.1%, a 120 basis point improvement versus the second quarter of 2023. The Q2 reflects the significant progress we have made in our initiatives to improve profitability. CapEx for the second quarter was \$36 million, essentially the midpoint of our guidance range.

In addition, we incurred approximately \$5 million of capitalized SaaS implementation costs in the quarter. Q2 gross profit margin was 77.9%, up 90 basis points compared to the second quarter of last year. The improvement in gross profit margin was primarily driven by pricing actions we have taken over the past year which provided approximately

160 basis points of benefit, partially offset by the impact of increased input costs of approximately 60 basis points, mainly relating to increased raw material costs.

Second quarter EPS was \$0.05 and included approximately \$49 million of pretax costs related to the implementation of our restructuring program and \$10.5 million of pretax costs relating to the extinguishment of our debt that was refinanced during the second quarter. Both of these items are excluded from our adjusted results.

Our adjusted EPS for the second quarter was \$0.54, which included a \$0.07 FX headwind versus the second quarter of 2023.

Our second quarter adjusted effective tax rate was 32.3%, up from 27.5% for the second quarter of 2023, which drove an approximately \$0.04 unfavorable impact to adjusted diluted EPS. The higher effective tax rate in 2024 was primarily due to changes in geographic mix of income, elevated interest expense following our recent debt refinancing, and an increase in tax expense from discrete events in the period.

We continue to expect our full year 2024 adjusted effective tax rate to be approximately 30% based on our forecasted geographic mix of income and the impact of higher interest expense.

Operating cash flows for the quarter were strong at \$103 million and included approximately \$31 million of cash payments related to the restructuring program.

Credit agreement EBITDA for the second quarter was \$208 million, leading to a further reduction in our overall leverage ratio to 3.5x as of the end of June.

Please refer to the schedule at the back of our presentation and earnings press release for a reconciliation between adjusted EBITDA and credit agreement EBITDA. Turning to Slide 11.

We see the drivers of our year-over-year net sales performance.

On a reported basis, net sales were down 2.5% year-over-year, with an overall volume decline of 6%, which drove a nearly \$80 million headwind.

This was more than offset by approximately \$86 million of pricing benefit as we continue to implement pricing increases to address regent or market-specific conditions, which are generally in line with local CPI increases. Unfavorable country mix of approximately \$7 million was primarily driven by increased sales in Mexico and India as well as lower sales in the U.S. relative to our overall net sales portfolio.

FX, as I said earlier, was a 270 basis point headwind year-over-year or about \$36 million. Moving to Slide 12.

We have the regional net sales results for the second quarter.



On a local currency basis, three of our five regions reported net sales growth in the quarter, with FX negatively impacting each of these regions on a reported basis.

In Latin America, net sales were up 2% on a reported basis and up 5% on a local currency basis.

During the second quarter of this year, in most markets in the region, excluding Mexico, we implemented a pilot program that reduced pricing and modified certain distributor compensation and qualification variables. This pilot is designed to localize and optimize the business opportunity based on certain socioeconomic conditions in the country.

We believe these initiatives positively impacted many of the markets in Latin America and could possibly be expanded into other markets. EMEA net sales were down 1% year-over-year with local currency net sales up 4%.

Favorable year-over-year pricing impacts more than offset volume declines.

However, unfavorable FX headwinds more than offset the net benefit. The year-over-year results were generally mixed across the markets in the region.

Asia Pacific net sales were down 2% year-over-year on a reported basis, while up 2% on a local currency basis.

India continues to outperform in the region, with net sales up 8% on a reported basis and 10% in local currency. China reported net sales decline of 7% year-over-year and were down 4% on a local currency basis. China faced a difficult comp in Q2 this year as a result of a sales surge last year in Q2. The 2-year stack for Q2 in China is an improvement versus the Q1 2-year stack.

Last month, we launched a new customer loyalty program in China, which encourages a more customer-centric approach aimed at driving customer recruitment activation and continuous repurchase with improved customer benefits.

Our business is continuing to evolve in China, and we are encouraged by the positive trends we are seeing with respect to new customers joining.

In North America, our net sales trend improved from the first quarter of 2024. The 7% year-over-year decline in reported net sales in the second quarter was primarily driven by the U.S. market.

As Stephan noted earlier in his opening remarks, new distributor recruiting is up year-over-year in the region and several initiatives have been launched over the past few months to encourage recruiting and activity from new distributors.

While the recovery in North America has taken longer than we would have liked, we are seeing green shoots and are encouraged by the gradual improvement. Moving to Slide 13.

We see drivers over \$10 million or 6% year-over-year increase in adjusted EBITDA. Q2 adjusted EBITDA came in strong at \$180 million with margin of 14.1%.

We have not seen results like this in seven quarters, which is a testament to the work the team has done to rightsize and pull costs out of the business.

Looking at the bridge, the impact from favorable gross profit margins, I mentioned earlier, can be seen in the benefits of price increases, partially offset by higher input costs. And as I stated last quarter, our employee bonus accrual is a headwind in Q2, and we expect the headwind to continue in the back half of 2024. Technology costs were up approximately \$6 million year-over-year, primarily due to increased SaaS hosting fees. Unfavorable year-over-year currency movements, primarily related to the Argentinian peso and Turkish lira drove an approximate \$11 million year-over-year reduction in adjusted EBITDA.

Turning to Slide 14.

I'll provide an update on our capital structure.

Since our last earnings call we have paid down our revolver by \$90 million.

As a reminder of what we previously reported in April, we completed a \$1.6 billion senior secured refinancing and repaid all amounts outstanding on our 2018 credit facility as well as more than half of the amount outstanding on the 2025 notes. The net result of this transaction or these transactions is that we pushed the vast majority of our debt maturities out to 2029.

With the only sizable maturity we faced prior to 2028, being the \$262 million outstanding on the 2025 notes, which we remain on track to repay. And as I noted earlier, we further reduced our total leverage ratio to 3.5x as of June 30, with the goal to achieve our target of 3x by the end of 2025, following the repayment of the 2025 bonds. Moving to Slide 15.

We will review our outlook for the third quarter and full year.

For the third quarter, we expect net sales to be in the range of down 4.5% to flat year-over-year.

This is primarily driven by approximately 300 basis points of unfavorable FX headwinds year-over-year.

We expect adjusted EBITDA to be in the range of \$125 million to \$155 million.

For comparison purposes, we have a large distributor event that will take place in the third quarter of this year, which was held in the fourth quarter of last year. The year-over-year comparison is also expected to be negatively impacted by currency partially offset by the favorable impact of the restructuring program. This program was substantially complete as of June 30.

Approximately \$66 million of implementation costs of this program were accrued in the first half of the year with only a small amount remaining.

From a cash standpoint, about \$33 million has been paid so far, with about \$35 million remaining to be paid in the back half of the year.

Our planned capital expenditures for the third quarter are in a range of \$35 million to \$45 million. Based on our results for the first half of the year and the outlook for the remainder of the year, we have updated our guidance for full year 2024 net sales to be down 3.5% to up 1.5% versus last year. And we are raising our expectations for full year adjusted EBITDA to a range of \$560 million to \$600 million as we are reaffirming our CapEx expenditures of \$120 million to \$150 million.

The increase in adjusted EBITDA expectations to reflect our outperformance in Q2, partially offset by lower volume expectations and unfavorable currency movements from our initial expectations in May.

As we look to the back half of the year, we expect capitalized SaaS implementation costs to be in a range of \$10 million to \$15 million, which is incremental to our planned CapEx. A couple of last comments before we open up the call for questions.

First, while sales were a bit lower than we had expected and currency is more of a headwind than we expected, there's a lot of good things happening at Herbalife that are creating a strong foundation for growth. New distributor recruiting continues to grow versus prior year, reversing 12 consecutive quarters of decline, and that growth is coming from experienced distributors that know how to build businesses.

Herbalife Premier League is taking off. And the Mastermind training program is coming in August, which is unlike anything ever done in the industry.

We are taking training and accountability to a higher level than ever before. We're continuing to launch innovative products that resonate in local markets and align with consumer trends.

We have positive results from the pricing and compensation changes we are piloting in most Latin American markets. Our sponsored athletes are important brand ambassadors and a testament to our Advanced Nutrition delivered by our products.

Our profit is strong. Our restructuring program is substantially complete, and we are continuing to look at ways to further reduce costs and expand margins.

Our leverage ratio was 3.5x, and our goal remains to get to 3x at the end of next year, following the payoff of the bonds. And while our goal is 3x by the end of 2025, we don't plan to stop there.

We want to pay off \$1 billion in debt over the next four to five years and transfer that value to equity holders, and that will be our primary use of our free cash. This concludes our opening remarks. Operator, please open the call for questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question will come from the line of Jeff Van Sinderen with B. Riley.

Jeff Van Sinderen^ Great.

So I just wanted to focus on North America for a minute, if we could.

I know that's been a little bit of a challenge to turn around.

But you're adding new distributors and are there other green shoots there that you might want to touch on? And I guess, where do you think you stand in that process of turning around the North American sales and what do you think needs to happen for that to really come to fruition?

Stephan Gratziani^ I'll take that, Jeff. Thanks for the question.

So if we go back to what we've been kind of discussing as a theme is that we have this very powerful model of Nutrition Clubs in the U.S., more than 10,000 locations.

I think in a couple of quarters ago, we talked about 4.4 million customers in 2023, 55 million transactions, \$915 million of business into these clubs. And yet there's a huge opportunity for us because most of these transactions and most of the customers, they're really coming in to buy a healthy shake and energy tea and a very small percentage of them are actually coming through and becoming, for example, preferred customers.

The conversion is 1% to 2% on average for the club and even less in terms of distributors. And so the big opportunity for us is really helping people go and build businesses that are not only going to do great from a transactional kind of more of a food service model, but bring them into really a transformational result and multilevel marketing, building organization model.

So when we take these 10,000 clubs and look at the conversion and we look worldwide at what's happening, they're really a huge opportunity for us.

Now the question is how do we help these club owners who many of them are in this TAB team, President team, Millionaire team, GET team, group of people, how do we help them through this transition? How do we support them?

And so that's where this mastermind really is the next level of support for all of these leaders. And again, Michael spoke to it. John spoke to it.

We've never done something like this. This is not something that exists in the industry.

The model for it actually in terms of a mastermind, it does exist.

As you know one of the reasons why we felt very strongly that creating a partnership or a kind of a special relationship with Eric Worre is because he was already delivering a mastermind program to some of our top leaders. And they were paying thousands and thousands of dollars for that type of coaching and information. And so to be able to put a program together with him and our top leaders, to be able to deliver to potentially thousands of our leaders here in the United States a very high-level program, which is not a weekend event.

It's literally a program that's going to be carried out through the next couple of years to help them along every step in the process of really implementing the most successful models that are going to help with this transition and supporting them all the way through.

Another part to this is the key account management program that we've never had before where actually not only are they going to be getting the coaching and the content and the education on the different PMOs and business models and flows, but it's going to be supported through looking at on a monthly basis. How everything is actually working, so data and metrics being shared, peer group accountability, which is part of pairing them up with other leaders that are doing similar types of businesses.

So they're sharing best practices. There's a certain dynamic that's fundamental and it works very, very well.

So that's how we're going to get there.

Again, we see this opportunity as really very big for us. The customers are there. They're just really more of a transactional customer, and there's a huge opportunity for us to bring them in to be transformational customers, which is the foundation of what we do.

So I hope that answers your question.

Jeff Van Sinderen^ Okay. Great. That's helpful. And then I sort of have a multipart question here, but I guess trying to understand your Q3 guidance a little bit better.

I know you indicated you booked most of the restructuring charges and new distributors or EBITDA was about 180 in Q2.

realize there's more bonus accrual and 300 bps, I think you said of FX headwind you're anticipating for Q3.

But maybe you could just walk us through the thought process around your EBITDA guidance range for Q3, which I think implies down year-over-year. Maybe what are the components kind of baked into the high end of guidance and what might cause you to come at the low end.

John DeSimone^ Sure. Thanks, Jeff.

So you hit on a couple of things.

So one is there's an FX component year-over-year from an EBITDA standpoint, it's about seven -- for the back half of the year, it's \$15 million, it split pretty equally between Q3 and Q4, right? So call it, \$7.5 million, somewhere in that range for the impact to EBITDA from currency year-over-year -- or actually versus what we thought a quarter ago.

I'm sorry, that is versus what we thought a quarter ago.

So that's just an impact from currency movements over the last three months.

Second, you talked about the higher bonus accrual.

We talked about that in the past. Third is, there are some unique events -- not unique events, but the timing of those events in Q3 is unique.

So we have our single biggest distributor event for FCCC happening in Italy in August. That event usually takes place in Q4, and it took place in Q4 last year in Japan.

That event is a pretty meaningful event. And plus, we do have the unique maximize [ph] event that's happening in August to add some expenses. And so -- and lastly, I'll say some advertising and promotion expense that was underspent in Q2 got moved to Q3.

So those are the big drivers of -- in addition to -- you saw the sales guidance a little bit less sales had an impact too.

So if I had to just recap, slightly lower sales, FX, those are by far the two biggest impacts and then some movement on the expense line with bonus and events and advertising and promotion.

Operator^ One moment for our next question. And that will come from the line of Chasen Bender with Citi.

Chasen Bender^ Great. Thanks afternoon, everyone. John, just to stay on the guidance theme.

For my first question, I was hoping you could elaborate a little bit more on the change in full year guidance net sales came in about \$50 million below the midpoint of the guide? And it looks like the implied 2H '24 net sales guidance came down about \$125 million.

I know clearly you called out FX a little bit worse.

But on the other hand, you also have productivity going well. You're going to new productivity initiatives with this mastermind [ph] class.

So maybe you can just give us some additional perspective on what's driving that additional \$75 million lower sales outlook in the second half?

John DeSimone^ Yes.

I mean it's two primary drivers.

So lower volume expectations that comes from a handful of countries that underperformed in Q2 versus our expectations that we changed the expectations going out, right? And so China, and we can talk more about China, but China because of the program they've implemented, the transitions of just takes a little longer to grow because it's focused on customers, but it's strong.

But we changed the expectations for China, Indonesia, Turkey, to name a few.

So just a few countries.

So that's volume. That, by far, has the biggest impact on the back half of the year, probably a \$25 million impact in the back half of the year for profit. And a bigger impact on net sales, you can determine from just the midpoint of guidance. And then currency.

Currency is a 300 basis point impact in the year-over-year guidance. And that's a meaningful change from where we were a quarter ago.

Chasen Bender^ Got it. And then in terms of pricing, Obviously pricing was once again a strong contributor to overall net sales growth in the quarter.

But you called out this pilot program in Latin America whereby you took a reduction in that price across most countries ex Mexico.

I was hoping you could expand a little bit on that.

What are the benchmarks you're looking for in terms of success that would then lead you to roll that out more globally and related, what sort of timeline might we see you make those judgment calls on and subsequently roll that out to other markets?

John DeSimone^ Yes. That's a great question.

So let's start with the strategy behind the changes that we've made. Historically, Herbalife, we've had pretty much the same approach to pricing and the compensation system to our distributors globally. And the reality is the -- that's not really a level playing field given that the socioeconomic differences across the 95 markets that we're in.

So what we did in most of Latin America, South America, specifically and Central America was lower the price so we can reach all consumers.

That was one thing.

Second, lower the compensation plan earned by distributors and us, by the way, it's a little bit lower margin percentage for everybody. And third, actually make it easier for the distributor than to qualify going up the marketing plan because the average purchase per customer in some of the poorer countries is pretty low. And so to reach the threshold that had previously been set, they need a lot more customers than a lot of other countries do and that creates more effort and almost an unlevel playing field.

So what we're ultimately trying to do is optimize those variables within a country to maximize the earnings and that means the earnings for the company and the earnings for distributors.

So the measurement of success is, are we generating enough increase in volume to not only offset the price decrease but that we're all putting more money in the bank at the end of the day by making these changes.

So that's the objective. I think it's strategic. I think it's an important pillar for the future. The leaders, distributor leaders in Sam Cam are very motivated. They've agreed with this.

It's been a multiyear initiative, and we're excited about it. And we'll look at what the results are to determine if it expands and where it expands to. And I think there'll be a little bit of pull from distributors in certain markets once they see the results in Sam Cam, that will say, I think our market fits that too, can we have it?

In which case, we'll look at the variables that need to change in those markets.

So I think strategically an important element of future growth, but we're just starting out.

Chasen Bender^ Got it. That's helpful color. And then if I can ask just one more.



For the top line growth and how to think about it, you obviously are introducing this new program for the TAB sales leaders, which seems it should be a benefit.

But clearly, that's focused on sales leaders who've already seen like you're probably pretty productive versus you have a bunch of incoming new sales leaders who are probably going to need help leveling up.

So the question is, how should I think about the stepping up of productivities of new sales leaders versus the existing established ones in terms of the sustainability of growth over, call it, the mid to longer term?

Stephan Gratziani^ I'll take this one. So it actually is a top-down and bottom-up approach, right? So you're absolutely right.

First of all, supporting the top level leaders, they're the ones that are responsible for the go-to-market strategies, right? And they're the ones that bring in the new distributors, and they're the ones ultimately because they're in their organizations that have a level of responsibility to make sure that they have the skills that are necessary.

We're looking at right now supporting them to make sure, especially the go-to-market strategies are relevant and the most effective that they can be. And by the way, part of that -- and I would say one of the benefits of being as geographically spread as we are, is that we have certain DMOs or models that are created or adopted and adapted in certain markets, like currently in the United Kingdom right now out of the entire company, we have one of the best-performing models, which is a version of a nutrition club, they call it a breakfast budget club.

And it is actually out of probably everything that's happening around the world right now creating the most amount of recruitment has some of the highest productivity that's taking place that qualifies the most amount of tab team over the last three or four years. And there's a lot of different countries that could benefit from a model like that because it fits.

And so being able to transfer the details of the model to have people really understand to the extent that they need to be able to implement it and then support them through a process. That's something that unless we as a company are facilitating the communication, the education and supporting it, it doesn't sometimes happen very naturally because you'd have to know someone in the U.K. to have a connection with the person that's actually doing that. Go to the United Kingdom get the information, come back, download it all, try to understand and implement it.

So we want to do that from the top down, and that's part of this program is going to allow us to do the mastermind.

And then at the same time, we are having Premier League training, Eric.

We are looking at success holders and new distributors and an onboarding process. And so this will be a holistic, integrated approach and it's not just top down here.

We will go bottom up.

Now it's going to take time in the process.

We've been at this for -- with Eric, just four or five months now.

I mean this is a longer-term process for us.

But your point is very, very well taken, and it's something that not only are we considering but we have plans to roll out.

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

Hale Holden^ John, \$1 billion debt paydown target over the next four to five years felt like it was a new, new, new to me.

Is the expectation that you guys would sort of pay as you go every quarter over the next couple of years and chip away at it or take it more in chunks?

John DeSimone^ So -- well it is new news, okay.

Is that we're committed to paying down \$1 billion over the next four to five years.

I think that question that's been coming up is once we pay down the 2025, what are we going to do about free cash? Are we going to buy back stock? And we just want to make it clear.

We continue at this point, given the cost of debt and the tax rate of that we think under the current circumstances, the best option is to continue to pay down debt.

So I think that's an important takeaway from the call. And I think that it just transfers (inaudible) due to equity holders.

So I think that's a good backstop.

Second, how we do that will be circumstantial.

It all depends on the maturities of the debt and what the penalties are for buying back early and how much cash we're generating.

So I'd like to do quarter-by-quarter to the extent that we can and that the economics work out because the interest costs are pretty high.

Operator^ One moment for our next question. And that will come from the line of Linda Bolton-Weiser with D.A. Davidson.

Linda Bolton-Weiser^ So I was wondering -- if you could give a little more color on Asia Pacific.

I think you explained the weakness in China. And you mentioned a few countries in Asia Pacific that you lowered the projections for, but I mean it was really quite a bit worse than we had projected against an easier prior year comparison than in the first quarter.

So I'm just wondering, like is it macroeconomic factors or something in the execution there? Or -- what -- can you give a little more color there?

Stephan Gratziani^ Sure. Thank you, Linda.

So a couple of different places. Number one, in Taiwan, we had a bit of stock issue with one of the products actually that is a main driver for one of the large organizations there that has a lot of growth.

So that didn't help us.

Taiwan had a little bit of an impact.

Indonesia, another market that's, by the way, very big markets.

But had a lot of clubs that closed during COVID, and I hate to talk about COVID because it seems like it's so far in the past now.

But the speed at which they've been opening up or reopening and also just the engagement that's being created, it's just taking a little bit longer than we were hoping for. And so Indonesia, Taiwan, those are kind of the main ones.

Let me just talk a little bit about China because I think China, it's really very important that we made a conscious decision to really, for the first time, because in China, they never had a preferred customer program that really had a benefit to preferred customers.

In China, when they sign up as a preferred customer, unlike anywhere in the entire world, there's no discount. There's really no benefit. And so we knew that, that was an area that we needed to really focus on because it's a huge consumer market.

I mean it's the opportunity there in terms of consumers is just very, very big.

And so we developed a loyalty program there that for the first time, actually benefits preferred customers. And that's why we really created the focus on the preferred customers even when we launched the Premier League. And it's been -- I'll give a little bit of information on it.

But in Q2 over Q1, we had a significant increase in the amount of preferred customers and over last year as well. And more importantly, what it did is it really drove the purchasers in China an increase of over 30%, not only over Q1, but also 30% over Q2 of last year.

And so it's a transition for us because, obviously when you're bringing in more customers, maybe they're a little bit less productive in terms of what they're purchasing compared to a sales representative.

But as you build that foundation, what it does for us is it allows a lot of people -- and by the way, this is -- in India, this is one of success factors in India that the more customers you have, the longer they're on the products, the better results, they have, the more they talk about the brand and become kind of raving fans.

It just builds this foundation for them to later become sales representatives and to carry the brand and to then become active because they themselves really had a benefit and are tied to the company's products. And so these are some of the things that are going to take a little bit of time.

It's a transition, but it's an exciting future and direction for us as a company.

Linda Bolton-Weiser^ Okay.

Can I also ask -- so at the North American convention, I guess, announce the success builder level or new initiative, I guess, you could call it.

So that's designed to speed up the process of getting new distributors up to a higher discount level. And I guess you explained that it peels off some profit from upline distributors in order to pay lower down ones more.

So I'm just wondering, conceptually, if there's more of that, that needs to go on in the organization as a mature direct selling company, do you need to kind of I guess, take away from some of the higher-level distributors in order to incentivize to drive growth more at the lower levels?

Is that something where more needs to be done even in the future?

Stephan Gratziani^ Yes, Linda, so I wouldn't say that a factor of taking away from the higher levels to get to the lower levels. Really what it does because if you think about it, the more people that come into the business and that become successful that are financially just achieving a certain level of success they stay in the business, right? And then there's this aspect of just compounding because you're keeping a greater percentage.

They're more productive -- it's really, I think, as we look at a company and John spoke to it a little bit earlier, it's making sure that the opportunity in a company that is diverse as

we are in all the markets that it's attractive that people can join that they can very quickly get to a point where they're making enough money that they want to stay around and they want to grow to that next level because the opportunity is exciting and interesting for them.

So these are some actions we're taking now.

Another aspect of it is that it's taken a while, just as an example, in LatAm, outside of Mexico, it's not like this is a new idea to make some of these adjustments, but it's taken a little bit of time for the leadership to maybe understand that the way we've done things in the past needs to change a little bit.

So we're following the distributor lead on this and where the requests are coming for.

So to answer your question, I believe there will be more of this at the right time and in the right way to support the market and overall, more people joining, more people becoming successful, more people are making money, more people staying around longer and bringing other people, it's good for the business overall. And so this is really the objective and we're trying to accomplish with this.

Linda Bolton-Weiser^ Okay. And then should I just ask, too, on the Premier League.

I learned, I guess, more about it at Extravaganza and it sounds great and all that.

But I'm still not sure I understand other than bragging rights and hats and different merch they can order and I guess maybe the Eric Worre) training more they get access to that.

What else does the Premier League give to somebody who gets that?

Stephan Gratziani ^ Yes.

So I would say the training is the most important thing, right? They are, number one, part of an elite group that have -- if we look at it, they're actually out there. They've brought a significant amount of people in. They're focused on this on a yearly basis.

So they are really the builders.

So having access to -- and we just had, by the way, the first call and the excitement and the energy and focus was really amazing from our distributor leaders that were qualified.

So the training, number one is very important. This swag is nice, by the way, there's a differentiator there.

It's also aspirational.

Everyone that's a business builder wants to be a part of the program. And so we've seen actually we raised our numbers in terms of how many people have qualified and if we look at this time last year or with our estimates this year, it's 3, 4, five fold over what people would have done typically and how many would have qualified last year.

So just by having the program and having the focus it starts to create a certain amount of energy that's put towards building business. And I think that's why you're seeing the numbers of recruiting that it actually happened higher with the higher levels of leadership, which just means more engaged, more focused leadership, which is -- has a lot of positive knock-on effects actually.

So yes, it's more than swag.

The training, it's the focus.

It's focused on building and scaling businesses for our leaders.

So a lot of different areas where this is going to be impactful.

Operator^ And that will come from the line of John Baumgartner with Mizuho Securities.

John Baumgartner^ Maybe first off, I wanted to come back to the distributor growth, which remains pretty strong. Exiting Q1, on the numbers, I guess, first started to pop I think it was too soon to really ascertain the drivers of that growth. And at this point, do you have any greater visibility into the catalyst for that? Is it simply the Eric Worre factor? Or are there any other factors out there you think might explain the growth of the Q3?

Stephan Gratziani ^ Yes. I'll take that, John.

So number one, when we talked about it, because obviously we were giving kind of initial into April and early -- it was very early, like you're saying. There was some, I would say, novelty like we talked about.

It was a new program, people focused on it.

But what's really promising is that we saw that it really settled into increased recruiting, maybe not as much as in the first month but the focus of them qualifying and building for the Premier League definitely has been a driver for that.

Access to Eric also has also been a driver.

So we're seeing the focus, which I think is the most important thing, and it's a focus on a long-term business building and not just, hey, let me qualify for something, and it's just a

short term because this is a long program. This is every single year it will have a qualification to remain in the program and to have access to the training.

So I would say that part of it is definitely -- there's a new program, there's access to training and support.

One of the things, it's a little bit early to talk about because there's a training that everyone that qualifies for Premier League that they have access to, the Mastermind program it's eventually going to end up being the same people that would be a part of it because the productivity of the group in the mastermind will be the most productive.

And so eventually, we see that these two programs will emerge and really, it just becomes this long-term higher level, higher supported business builder program for the most committed productive people, which will drive the leadership in the company.

So I hope that answers the question, but it's more than just this little thing that we're throwing out. There's a long-term plan for this and a level of support that we've never done as a company before on a lot of levels.

John Baumgartner^ Okay.

Okay. Great. And then a follow-up for John. Coming back to the price adjustments in LatAm, your follow-up explanation makes sense in terms of the model.

But this is a market where I think cumulative pricing is probably up around 30% since the beginning of COVID, give or take. And I just wanted to better understand the catalyst for this change.

Were you receiving feedback that prices just became too high, whether for the category or the channel? Or is this initiative something that you're sort of jump starting from the inside and then pushing outward?

John DeSimone^ Well I think it started about 5 to 6, maybe even more years ago and actually started from an initiative, Michael pushed over to me at the time. Regarding pricing of our products in certain markets because in certain markets, our products seem to only be able to skim this top surface of consumers. And that was because of the amount of payout we had to make associated with those products.

So it started with us, and it started with years of communication with our distributor leaders trying to build off in some of what we were trying to do, trying to share the risk associated with it and recognizing that a lower price with a different payout can actually be more profitable from a dollar standpoint to them and us if we can reach to more consumers. And so I think it started out maybe from inside out, but what's happened in the recent past is it's been more outside in now pulling on those ideas.

John Baumgartner^ Is the thought process, if you do scale this more broadly, I guess now it's not going to have that much of a margin impact on the overall model.

But if you roll this out more broadly where it may have an impact on margins, is it thinking that with the restructuring savings you have the transformation program, you can basically sort of absorb that kind of downward reset margins without having the impact at the bottom line? Is that basically the thought process? It gives you the kind of flexibility to be more creative on the pricing?

John DeSimone^ So I mean I think we can more than offset it.

So I think there's pluses and minus in this gross profit actually as more of these types of pilots pushed out, then you'll see maybe a negative impact to gross profit.

But you won't see nearly as a negative impact to contribution margin because the payout structure to distributors also changes. And then we can reduce our SG&A.

So that's kind of the plus when you think of the countries we're doing this with they not necessarily these big countries that make up the majority of our sales.

But it does offer an opportunity to some of the smaller countries that may, in fact, be small because the pricing only reaches the top tier consumer.

Stephan Gratziani^ And John, just to add on to this also.

One of the things that we're seeing because it does make the opportunity more interesting for people is that it really does help to drive also recruiting growth because the opportunities more interesting. And I think if you look at the Latin American numbers, it's kind of leading in the worldwide in terms of the recruiting. And so that's really opportunity driven, right? So people are more excited about the opportunity.

They go talk to more people, there's more customers that are coming in because the products are more affordable.

So what ends up happening that actually drives that, which more people buying more products, that's what we're looking for.

So there's also that aspect of it that's important.

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

Karu Martinson^ Just following up on that, I mean how are we thinking about pricing and the impact of inflation for the second half of the year?

John DeSimone^ We'll continue to take the price increases. (inaudible)



Take Latin America or Central and South America out of this comment.

In general, we're continuing to take price at local CPI. That continues to be our strategy until we make a shift like something we did in South and Central America.

So that's going to continue in the back half of the year.

And so that was in our guidance a quarter ago. Nothing's changed with respect to our net sale guidance relative to price for the second half of the year versus where we were a quarter ago. The things that have changed, the primary drivers of -- again, I'm going to repeat this because I think it was asked in a couple of different ways, and we started looking at it compared to last year and compared to the last quarter and compared to last guidance.

What's changed in net sales guidance for the back half of the year versus where we were a quarter ago is lower volume in some of the countries, Stephan talked about, and it's an impact of that and an incremental cost from currency.

For example, in the third quarter, there is a 200 basis point negative impact to net sales versus what we thought when we gave guidance a quarter ago.

Even though we didn't give specific Q3 guidance at the end of last quarter.

Inherent in our guidance for Q3, we have now -- currency has now impacted at a negative 200 basis points. That -- those are the drivers for the change in net sales quarter-over-quarter, quarter versus last guidance and even last year.

It's volume, it's mostly volume and currency.

Karru Martinson^ Certainly understood. And just on the cash generation, the debt pay down here, we're still on track to repay, I think you said last quarter, two-thirds of the '25 with cash generated this year and then the remainder for next year, correct?

John DeSimone^ Well it's not exactly the way I said it.

What I didn't talk about when we will repay.

I talked about when we will generate the cash to be able to repay and what I said is we expect to generate about two-thirds of the cash needed to pay the \$262 million down this year, and we're still on track for that. And of course, we did just sell -- we sold an administrative building for \$38 million.

So we got that cash into.

So that also helps, but it doesn't mean we're going to pay down this year. Just the whole purpose of the comment was to get investors comfortable that we're generating enough cash to be able to pay it down when it's due.

Karru Martinson^ Understood. And then I was actually my follow-up was the \$38 million of proceeds eventually will go to debt repayment, correct?

John DeSimone^ It's fungible, right? I mean we have -- it goes in our cash flow.

Our cash flow is fungible.

It just means we have more cash than we would have had have not sold the building.

Operator^ That will come from the line of William Reuter with Bank of America.

William Reuter^ I have two. The first, the difference in the distributor trends between the new distributors that you're getting, which are very positive and then the total numbers.

Can you lay that out a little bit more clearly? I'm still a little confused on it, and I've gotten a couple of questions about it.

Stephan Gratziani ^ So Bill, you're asking about the new versus the total?

William Reuter^ Yes.

I mean the -- I don't remember the verb you used, but -- or the adjective you used, but when you were discussing the recruitment, those trends were very good.

But when you look at the total numbers, like the net numbers are not quite as favorable. And if you could bridge those two different numbers?

Stephan Gratziani ^ I don't -- yes, I don't think we've talked about the total. Maybe I was talking about something else, just to be sure.

I don't think we discussed total numbers.

William Reuter^ Okay.

I thought that there were active numbers in your slide.

I was looking at prior to the call that the difference in the trends versus the recruiting numbers would be different.

Is that not the case?

Stephan Gratziani ^ Well the recruiting numbers start to add on, right? So it's cumulative over time.

So if you're bringing in x-amount one month and you're adding another group the next month, the next month, the activity rate actually is those that are stopping being active and those that are joining that are starting to be active.

So we didn't specifically talk about that.

But what ends up happening is when you've had those 12 quarters of decline in recruiting, there's a tail to it, right?

So you actually have less and less people over time, now we're starting to add in, and that's why we made the comment that one quarter is the beginning of the journey.

What ends up happening is that you end up having as you add on consecutive quarters and consecutive months you'll reach the inflection point, right? There will be this time at which kind of the consecutive 12 quarters kind of starts to run out and then all the add-on meets at that point. And that's the inflection point. And so you may not be seeing it driving now in the overall total active numbers, but eventually, that point will come.

William Reuter^ Okay. And then I guess my second question is when you talk about \$1 billion of debt reduction and then you also have this 3x target by '25, it seems to imply that your leverage target post '25 is lower than 3x.

Is it your goal to ultimately operate with a less levered balance sheet in '26 and '27 versus your kind of target that you've set out there for '25?

John DeSimone^ Well that's the outcome of what we said.

I mean our goal is situational.

It's based on the cost of debt, the tax friction with the debt and what the best use of our cash is. And as we stand here right now we think it's continue to pay down debt.

So the first goal of 3.0 was consistent with where we were historically for a goal, and we wanted the investors to know we think we can get there next year, and that's our goal.

Today, the new information is, but we don't want to stop there.

We actually do want to keep paying down debt. Not because we want to be below 3.0, it's because the economics, yes, that the best use of our cash is to pay down debt, which will result in us being below 3.0.

William Reuter^ Great.

I think it's the same way -- different ways of getting to the same place.

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^ Thanks, everybody, for your questions. We appreciate you being with us today. Herbalife is a super cool, super interesting company.

I've been here for a long time, and we're all focused on one thing. We know we've got to get the top line up in this company. It is goal number one, it is in everybody's DNA inside the company. And the ingredients for that growth are with us.

We've got the best management team by far in the industry. We're focused. We're nimble, we're organized. We've got a global footprint. Stephan talked about it that gives us incredible opportunity.

We've got more engagement with distributors today on training, especially with North American Mastermind program with Eric and Stephan and many successful distributors joining together to provide higher level of training than ever before. This is going to be something very, very unique and opportunistic. Recruiting, it's up after 12 quarters of decline, that is a headline for us.

That's great news. It's a vital lead indicator. These new distributors, as they get up to speed, the results are going to follow. We're confident in that. And as JD mentioned, our financial foundation is strong and improving just came in on the question there.

If you ask me that question, I want to get rid of as much debt as possible, but JD said it incredibly well which is what's the best use of cash at the moment that we have it in order to make our balance sheet stronger and our investor share even better.

Our new management structure is focused on delivering nutrition products and digital tools to work inside our customer distributors -- our distributor, excuse me, DMOs and our customer preferences. And then I started this way, but I've experienced a lot of Herbalife in 21 years.

And as I said at the beginning, this management team is more focused and more knowledgeable of the field and, frankly, almost any management team, and we've had some great ones. And they know the distributors and they understand the business, that's the benefit of having Stephan inside the company to make sure every move we make is focused on distributor success and building that top line.

We're more focused, and we're stronger than ever inside the company with the team working closely together, the top line growth, I know it's coming.

So I want to thank all of our -- and we've got a lot of employees and distributors who listen to this call. I want to thank them because this has been a very interesting first part of the year. We've laid off some folks. We've reorganized the company.

We've gotten incredibly focused on making sure that every move we make in this company delivers results. So I want to thank you and of course, our millions of customers for your support, and it wouldn't be me unless I said it at the end, hey, let's go Herbalife. Thanks you guys. Appreciate it.

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