

Herbalife Ltd. (Q1 2024 Earnings)
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Corporate Speakers

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

Participants

- Anna Jeanne Lizzul; BofA Securities, Research Division; Research Analyst
- Chasen Louis Bender; Citigroup Inc., Research Division; Assistant VP
- Hale Holden; Barclays Bank PLC, Research Division; MD
- Jeffrey Wallin Van Sinderen; B. Riley Securities, Inc., Research Division; Senior Analyst
- John Joseph Baumgartner; Mizuho Securities USA LLC, Research Division; MD & Senior Consumer Equity Research Analyst
- Karu Martinson; Jefferies LLC, Research Division; Analyst
- Linda Ann Bolton-Weiser; D.A. Davidson & Co., Research Division; MD & Senior Research Analyst

PRESENTATION

Operator^ Good afternoon and thank you for joining the First Quarter 2024 Earnings Conference Call for Herbalife Limited. (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. You may begin.

Erin Banyas^ Thank you, Towanda, and good afternoon, and 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. 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^ Good afternoon and good evening, everyone. Thank you very much for joining us today. In the last 6 months, we've undertaken a complete transformation at Herbalife. We've built an executive team to take Herbalife to the next level and deep into the future. We are almost complete with our reorganization. We've strengthened our balance sheet. We've improved our margins. We've increased distributor recruiting and entered a strategic alliance with the top business and personal development thought leader in the direct selling industry.

As you will see, we are seeing the positive results of our efforts. Those results include the positive trends we saw continue in quarter 1. For the second consecutive quarter, we achieved year-over-year sales growth with a net sales of \$1.3 billion, our adjusted EBITDA of \$138 million exceeded our guidance, and we are raising our full year adjusted EBITDA expectations. Adjusted EBITDA margin was up 60 basis points year-on-year.

In April, we strengthened our balance sheet with a \$1.6 billion refinancing. We reduced our total leverage ratio from 3.9x at the end of the year to 3.6x at the end of March and we are committed to reducing our total leverage ratio to 3x by the end of 2025.

In relation to our restructuring, I believe we have the best executive team in the direct selling industry. We've developed a new operating model with our major markets reporting directly to our President Stephan Gratziani, who is leveraging his 32 years' experience as a top Herbalife distributor. This restructuring also reduces layers and increases span of control thereby improving efficiency and profitability. Most of the restructuring will be completed by the end of June, and we expect it will deliver approximately \$40 million in savings in 2024 and at least \$80 million in annual savings beginning in 2025.

In addition, John DeSimone and his team are focused on identifying additional opportunities to reduce costs and expand margins. In March, we engaged approximately 4,300 of our top and most influential distributor leaders from 80 countries in Lisbon, Portugal for our Summit 2024, which is our annual leadership training and recognition event.

Significant new initiatives were unveiled, including enhanced leadership development opportunities, elevated entrepreneurial skills training, and a program to drive increased sales and recruitment globally called the Herbalife Premier League, Stephan will provide more information on the effects of these initiatives.

Following Summit, Stephan and I returned to China, where we continued our work with distributors and staff to support them in growing their business. We also shared our vision and reinforced tremendous opportunity we have in the market at their Extravaganza. We had approximately 14,000 attendees at the event, which is a 25% increase in attendance versus last year.

On the topic of extravaganzas, registration numbers for our North America extravaganza are tracking well above the totals we saw last year at this time. And we believe total attendance will exceed last year's numbers. This is further evidence of renewed energy, excitement and

engagement at Herbalife. To support that renewed energy and engagement, we continue to work on Herbalife One, where the foundation has been laid for enhanced digital capabilities globally for distributors and customers.

For example, we recently launched our all-new distributor e-commerce platform to our distributors in the U.K. and Spain, and we continue to roll out the [herbalife.com](https://www.herbalife.com) websites to an additional 22 markets since our last call. In addition to Herbalife One, our China team is rolling out some incredible technology, including wearables in a virtual buddy that leverages artificial intelligence or AI.

On the product side, we continue to build our product portfolio and have exciting products in our pipeline that leverage market trends in the weight loss, wellness and beauty categories. We are also launching products in a variety of formats such as single-serve options for on-the-go use and repackaging our products to reduce our use of plastics and improve our carbon footprint.

Turning to the GLP-1 trend. We continue to believe the best approach for Herbalife is to leverage our distributors' core strength, which is to help meet people make behavioral changes for sustainable results and provide products that complement the GLP-1 users, such as our GLP-1 nutrition companion product combos. While we are still in the early stages of the GLP-1 product combo launch, the data we have so far indicates that the products have been successful at attracting new customers.

Our focus on behavior changing community, well, it's what sets us apart. We have multiple ways to help people change their behaviors for long-term results, including healthy active lifestyle workouts, weight loss challenges and Nutrition Clubs. And it's our Nutrition Clubs that truly differentiate us from others in our industry. We have approximately 67,000 Nutrition Clubs globally. They offer an extraordinary business opportunity for distributors to provide a healthy meal for customers on the go and create a supportive community for people who are on a health and wellness journey. It is this community aspect that leads to accountability and behavior change and sets us apart.

As you heard last quarter, we are focused on leveraging our Nutrition Clubs as well as other initiatives to drive sales, increase our recruitment, train and support distributors and leverage technology.

I'll conclude my opening remarks by saying something you've heard me say time and time again. I'm more passionate about Herbalife now than ever before. We are unique in our industry, and we believe in our products, our business model our distributors and our employees. And working together, we believe in our ability to truly change people's lives. We have the best team in our industry focused on growing our top and bottom lines, bolstering our balance sheet, engaging our distributors and delivering a transformational opportunity for our customers.

Now let me turn it over to Stephan, who will provide more details that will reinforce why we're more confident than ever in our future.

Stephan Paulo Gratziani^ Thank you, Michael. During our previous earnings call, I outlined our strategic initiatives aimed at driving sales, accelerating recruitment, and empowering our

distributors through enhanced training and support. Today, I'm excited to report that we are beginning to see positive results from these efforts. As you know, events play a crucial role in our company. About 7 weeks ago, as Michael mentioned, we hosted our global leadership in Lisbon, Portugal for a 5-day Summit. At this landmark event, we ushered in a new era for Herbalife. We introduced Eric Worre to the top 4,300 leaders and the reception was overwhelmingly positive. We launched a foundational business training and recognition program called the Herbalife Premier League.

We also introduced a cutting-edge social media marketing tool that leverages AI to create content and help distributors enhance their personal brands and attract more customers and distributors. Following the summit, we launched a 4-week virtual training series with Eric Worre, which saw participation from 140,000 distributors worldwide. It's been a busy 7 weeks since the summit in Portugal, and typically, we would not be sharing results beyond Q1 today.

However, given the recruiting activity we have observed since late March and through the end of April, we felt it was important to share.

On Page 6 of the presentation, you will see that we have experienced year-over-year growth in new distributor numbers in April across all regions. To be clear, this is as of April 29. The last time this occurred was almost 4 years ago in August 2020. North America was up 9% March over February, 27% April over March, and 41% year-over-year in April. Latin America increased by 5% March over February, 23% April over March, and 49% year-over-year in April. EMEA grew by 5% March over February, 16% April over March, and 25% year-over-year in April. APAC was up 35% March over February, 22% April over March, and 8% year-over-year in April. China saw a 75% increase March over February, a 2% decrease in April over March, and an 8% increase year-over-year in April. Worldwide, we were up 22% March over February, 17% April over March, and 20% year-over-year in April.

We believe the uptick in new distributor numbers is primarily due to the launch of the Herbalife Premier League program and the access distributors have to Eric Worre's industry-leading training and expertise. Although the new distributor recruiting numbers might initially be influenced by the novelty of the launch of a new program, we believe the value and impact of the program long term will be key to building a sustainable and growing business.

Recruiting is a leading indicator for future growth, and there's a natural lag until those numbers start to reflect in volume growth. By the end of Q2, we will have a better indication of the impact on sales volumes and the momentum we're observing. In my 32 years of experience building businesses as a distributor, 2 areas made the biggest difference. The first was developing leadership and continually upskilling the organization. Eric will play a key role over the next few years as he trains our global organization. This year, he will be present at almost every extravaganza, training over 100,000 distributors on how to become leaders and build successful businesses, never in the company's history has there ever been this level of training accessible to such a large audience, we believe the impact will be significant.

The second area that made a big difference was ensuring that the go-to-market strategies where DMOs the distributors were using were continuously evolving and relevant in current market conditions and never cease to be optimized to attract and retain new customers and distributors. This is an area we are highly focused on as a company, and are changing the way we traditionally train distributors in the business. We are moving away from generic business

trainings to highly focused DMO specific trainings which are more efficient in helping distributors adopt and implement new models which are having the greatest success.

The response from our distributors to this shift has been extremely positive. The changes we are making in these two important areas are just a small part of everything we're focused on. The work we have been undertaking during the reorganization has been aimed at designing the most efficient and optimized organization for top line growth and financial performance efficiency.

One important aspect of the new operating model is having direct line of sight into the markets, which gives me an opportunity to leverage my years of experience in the field and make the biggest impact possible on a market-by-market basis.

Another important aspect is that going forward, everything that touches top line growth will be organized within a commercial arm of the company, led by Frank Lamberti, our newly appointed Chief Commercial Officer. Frank has more than 19 years of diverse experience throughout the organization, and he will be assuring that everything we do daily as our distributors in mind and focused on helping them attract and retain more customers, distributors and build bigger businesses.

I could go on and talk about so many other things that are happening, but let's move on to John, so we can update you on Q1. And John, over to you.

John G. DeSimone^ Thank you, Stephan. I'll start with our key financial highlights on Slide 8 before getting into more details. Net sales for the first quarter were \$1.3 billion, up 1% from the first quarter of 2023. This is our second consecutive quarter of year-over-year net sales growth. On a constant currency basis, net sales grew 2.4%, essentially the same year-over-year growth experienced a quarter ago. Our Q1 adjusted EBITDA was \$138 million and exceeded our guidance. Our adjusted EBITDA margin was 10.9%, a 60 basis point improvement from the same period a year ago. Additionally, last year's first quarter adjusted EBITDA benefited from approximately \$9 million of China grant income that did not repeat in the current year. CapEx for the first quarter was \$33 million and at the low end of our guidance range.

First quarter gross profit margin was 77.5% up 130 basis points compared to the first quarter of last year. Gross profit margin was favorably impacted by pricing actions we have taken provided approximately 150 basis points of benefit and which exceeded the impact of increased input costs of approximately 110 basis points. Lower inventory write-downs also contributed to the improvement in gross margin by approximately 60 basis points.

Q1 diluted EPS was \$0.24 and with adjusted diluted EPS of \$0.49, which included a \$0.03 FX headwind versus the first quarter of last year. It also included higher amortization expense as we started amortizing the implementation costs related to Herbalife One during the quarter and the nonrepeat of the China grant income I previously mentioned.

For the year, we expect to recognize \$30 million to \$35 million of amortization expense related to Herbalife One. Our first quarter adjusted effective tax rate was 27.1%, up from 12.9% in for the first quarter 2023, which drove an approximately \$0.09 unfavorable impact to adjusted diluted EPS. The lower rate in 2023 and was primarily due to the geographic mix of income and greater tax benefits from discrete events last year. We anticipate our full year 2024 adjusted effective tax rate to be approximately 30% based on our forecasted geographic mix of income and the impact of elevated interest expense following our recent debt refinancing.

As Michael highlighted earlier, in March, we began implementing our new restructuring plan to get the management team closer to the market, [delay] of the organization, and increased management span of control. We expect the program to deliver annual savings of at least \$80 million, which will be fully realized in 2025, approximately \$40 million of the savings expected to be realized this year. We expect to incur total program pretax expenses of at least \$60 million this year which are primarily related to severance costs and will be excluded from our adjusted results. We anticipate the majority of all actions related to this program to be completed by the end of June this year.

During the first quarter, we recognized approximately \$17 million of SG&A related to the program. Operating cash flows for the quarter were \$14 million. We expect Q1 to be the lowest cash flow quarter of the year since it's when we pay out the Mark Hughes bonuses to our most senior distributors, which was approximately \$75 million.

In comparison to Q1 '23, last year's first quarter benefited from an approximately \$35 million change in inventory due mostly to last year's inventory optimization program.

Looking forward to the rest of 2024, we expect cash flows from operations for the remainder of the year to be approximately \$250 million to \$290 million. This includes the headwind of approximately \$60 million to implement our restructuring program just mentioned as well as the higher interest expense associated with the new financing.

In April, we completed our \$1.6 billion senior secured refinancing. At the end of the first quarter, our total leverage ratio was 3.6x, which is down from the 3.9x at year-end, and we are committed to reducing our total leverage ratio to 3x by the end of 2025. And I'll speak more on this a little later.

Turning to Slide 9. You can see the drivers of our year-over-year top line growth. While overall volumes were down 3.6% year-over-year, which drove an approximately \$45 million headwind, it was more than offset by approximately \$82 million of pricing benefits. We continue to implement pricing increases to address region or market-specific conditions, which are generally in line with local CPI increases.

Unfavorable country mix was primarily due to higher sales in India, and lower sales in the U.S., partially offset by increased sales in China relative to our overall net sales portfolio. FX drove 140 basis points or about \$18 million, primarily due to the continued devaluation of the Argentine peso and the Turkish lira. We continue to take regular price increases in both of these high inflationary markets. These FX headwinds were partially offset by year-over-year favorable currency movements from the Mexican peso.

Moving on to regional net sales results for the first quarter on Slide 10. 4 of our 5 regions reported net sales growth in the first quarter on both a reported and local currency basis. China posted its second consecutive quarter of year-over-year double-digit growth on both a reported and local currency basis, up 11% and 17%, respectively. We are continuing to see positive momentum in several of our metrics, including active sales representatives, which was up 16% year-over-year. Asia Pacific was up 4% year-over-year on a reported basis and up 7% on a local currency basis. EMEA continues to outperform in the region, with net sales up 14% on a reported basis and 15% in local currency. The market experienced double-digit year-over-year increases in both active preferred customers and active distributors.

EMEA net sales were up 4%, with local currency net sales up 7%. The year-over-year results were generally mixed across the markets in the region. In Latin America, net sales were up 4% on a reported basis and up 2% on a constant currency basis. This is the fifth consecutive quarter the region has reported a year-over-year increase in net sales. For the current quarter, year-over-year favorable FX impact was primarily due to the Mexican peso. Mexico's net sales were up 10% year-over-year on a reported basis, while relatively flat on a local currency basis on slightly lower volumes.

During the first quarter, we continued to experience importation delays in Mexico as a result of the government's delay in timely approval importation permits, which stems from the importation hold placed on food supplements entering Mexico late last year, and this was not unique to Herbalife. However, our distributors are resilient. They consistently find new ways to overcome challenges which we believe contributed to the minimal decline in volumes year-over-year given the significant headwinds they faced exiting 2023. The year-over-year volume decline in Mexico was more than offset by 2 price increases implemented in the market following the first quarter of 2023. In North America, the decline in reported net sales were primarily driven by the U.S. market's 11% year-over-year decline.

As Stephan noted in his remarks, several initiatives have been launched during the first quarter, which we believe are beginning to take root. We are encouraged to see the uptick in new distributors in the U.S. This is a positive leading indicator, which we are closely monitoring.

Moving to the adjusted EBITDA bridge on Slide 11. We see the drivers of our 7% year-over-year increase in adjusted EBITDA. Q1 adjusted EBITDA was \$138 million, with margin at 10.9%. As I previously mentioned, price increases, which were based mostly on CPI, exceeded higher input costs. The year-over-year increase in bonus is primarily due to the increased employee bonus accruals in the current period versus 2023, which were accrued at a significantly reduced achievement level. We expect this to continue for the remainder of 2024. Technology costs were up approximately \$5 million year-over-year due to the increased SaaS hosting fees as we strategically pivoted to more SaaS-based arrangements in 2023.

As I previously mentioned, the nonrepeat of the China government grant income recognized in the first quarter of last year, drove an approximate \$9 million of unfavorable impact on adjusted EBITDA. The other changes include \$7.5 million of favorable impact due to lower inventory write-downs in the first quarter of 2024 versus the same period last year due to significant efforts at the beginning of 2023 to rightsize our inventory levels. The remainder of other primarily relates to additional net SG&A savings mostly from the cost-reduction initiatives put in place and led by a dedicated task force.

Moving to Slide 12, I'll provide an update on our capital structure. During the quarter, we lowered our overall debt by approximately \$155 million, and we reduced our total leverage ratio from 3.9x at year-end to 3.6x at the end of Q1. Cash at the end of March was just under \$400 million. As we took additional steps during the quarter to further leverage our in-house bank and better optimize our cash. Following the quarter, we completed a \$1.6 billion senior secured refinancing, which included \$800 million of senior secured notes due in April 2029, a \$400 million 5-year term loan B facility and a \$400 million full year revolving credit facility.

Proceeds from the 2029 senior notes and the new term loan B, we used to repay all amounts outstanding under the 2018 credit facility, which included approximately [\$983 million]. We

also redeemed \$300 million of the \$600 million outstanding on the 2025 senior notes. In addition, last week, we separately repurchased an additional \$38 million of the 2025 senior notes. The net result of the transactions is that we have pushed a vast majority of our debt maturities out to 2029. The only sizable maturity we face prior to 2028 is the \$262 million outstanding on the 2025 notes, which we expect to pay off with cash generated from operations.

Regarding interest expense, based on the approximately 240 basis points increase in the weighted average interest rate of our new debt structure and assuming the debt balance as of April 26, as noted on the slide, we are expecting full year net interest expense to be approximately \$50 million to \$60 million higher than 2023. And we remain committed to reducing our leverage ratio to 3x by the end of next year.

Moving to Slide 13. We will review our outlook for the remainder of the year. First and foremost, we expect to continue to issue guidance every quarter going forward. For the second quarter, we expect net sales to be in the range of flat to a 3% increase year-over-year. We expect adjusted EBITDA to be in the range of \$140 million to \$160 million. A small decline from Q2 last year, which is primarily due to higher tech costs and higher employee costs as savings from the new restructuring program mostly in the back half of the year, as the majority of the actions are occurring during the second quarter.

Looking at our planned capital expenditures for the second quarter, we expect it to be in the range of \$30 million to \$40 million. in line with Q2 of last year and Q1 of this year.

Based on our results for the first quarter, and outlook for the remainder of the year, we are reaffirming our full-year 2024 net sales guidance of flat to a 5% increase year-over-year, and we are raising our expectations for full year adjusted EBITDA and to a range of \$550 million to \$590 million, and we are reducing our capital expenditure expectations to a range of \$120 million to \$150 million.

The reduction in narrowing of our CapEx range is based on a thorough review of our technology and manufacturing plan. We have reprioritized development and implementation of certain applications related to Herbalife One and eliminated or postponed certain capital projects related to our manufacturing facilities.

Capitalized SaaS implementation costs are expected to be in the range of \$20 million to \$25 million for the full year 2024. with approximately \$5 million capitalized in the first quarter of 2024.

A couple of last comments before we open up the call for questions. First, I'd like to provide an early but high-level outlook into our 2025 adjusted EBITDA margin improvement. Inherent in our 2024 full-year guidance today is that adjusted EBITDA margin that is not dissimilar from 2023. However, with our cost savings plans and modest growth expectations, we expect 2025 adjusted EBITDA margin to be a minimum of 100 basis points better than 2024.

We get there with the full year impact of the reorganizational savings as well as an additional \$35 million in savings that we have already identified, including incremental reduced tech spend. And of course, we're not stopping there. We are continuing to focus on driving costs out of the business and enhancing our margins, and we will provide more updates in the future.

Second, as I previously said, we expect to repay the \$262 million in bonds due in 2025 from cash flow generated by the business, much of which we expect to be generated this year.

For my earlier comments regarding our 2024 cash flow expectations and our CapEx guidance provided today, you can calculate that we expect to generate nearly 2/3 of the free cash needed for this 2025 maturity in 2024.

With the bond pay off in 2025, the minimum 100 basis point improvement in adjusted EBITDA margins in 2025 previously mentioned plus the add-backs for the credit agreement EBITDA for things such as share-based compensation, we now have line of sight to how we can achieve our 3x leverage ratio by the end of next year.

This is an exciting time for Herbalife, and I could not be more proud of our team. I hope you walk away from today's call with the following. As Stephan described, our initiatives are driving increased distributor engagement. We can see a sales growth trajectory. We have additional opportunities to take costs out of the business. The cash generated from the business will be used to pay down debt.

And one last key point. As Michael said earlier on the call, we are unique from every other direct selling company, and we will continue to capitalize on those assets as we move down our path to be the world's premier health and wellness company, community, and platform.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Chasen Bender with Citi.

Chasen Louis Bender^ I wanted to ask about North America. Specifically, it seems like the March and April sales trends are improving. But relative to the rest of your geographies, North America continues to be sluggish on a year-over-year basis. So I was curious -- can you unpack why you think that market has been so challenged versus your other geographies? And whether what we're seeing is just a really prolonged COVID hangover? Or is there something more structurally challenged about the U.S. and related. I know you don't guide by region, but based on your internal expectations and what you've seen in the last 2 months, what is a reasonable time line do you expect the U.S. to return to growth.

Stephan Paulo Gratziani^ Yes, I'll take this one. Chasen, thanks for the question. Last quarter, we talked about the U.S. Nutrition Clubs, more of a food service transactional model, right? So if we look at the last period of growth over the last 4 or 5 years, it was really a pivot to that model.

By the way, a fantastic model. Last quarter, we talked about the 4.4 million customers, the 55 million transactions the \$910 million retail sales into clubs, very, very strong model. But on the back end, because it's so focused on food consumption, healthy shakes, energetic teas, what ends up happening is that we just aren't getting the conversion overall, generally speaking, that we want to have. And that's people that are coming in, they may get the experience of being in the club, take home a healthy meal, healthy shake, but we want them to understand that

Herbalife really is a life-changing better health, reach your goals, company, and not just grab a healthy shake on the way home.

So the transition to that model and especially if we look at it kind of through COVID, what we're finding is that it's just a little bit slower for us to have these other transformational aspects of the model come back.

By the way, when I say come back, the focus hasn't been that long, to be perfectly honest with you, because we got so much growth out of the Nutrition Clubs transactional business that really was kind of not that evident that we were missing out on something until we really started to look at the numbers. And that's where we've been last time telling you about the conversion rates within different clubs.

Some clubs are converting at 1% of club customers that become preferred customers, some of them are converting over 10%. So really, the work is helping them to find within their communities, what are the services that they can give and how they can introduce people to moving from just a shake or a tea to actually taking products at home, focused on getting results. And so that's part of what's happening right now.

By the way, we are having really good results in some areas with some people, and it's really that question of how do we take what's working with some groups, and we actually make sure that the information and the models are clear and they're shown. So that's U.S. specific.

In the United Kingdom, and this is just to really go on the transformational part of it. We've got someone there that started 5 years ago with a new club model, again, based in Nutrition Clubs, but they've got a very specific way of actually helping customers get on products and have a duplication in the model, which is quite incredible.

And this is something that now in Europe is expanding but also is something that could be very valuable for the United States. So again, it's back to the DMOs and helping distributors, club owners in the United States understand how they can leverage this amazing business they have and build a much bigger back-end business and duplicating organization.

John G. DeSimone^ Chasen, let me add to that. So your question at the beginning, talked about North America lagging in new distributors from the rest of the world. If we look at specifically April, and you go to Page 6 on the slide that was presented. North America is up 41% this April over last April, which is the second highest of all the regions. So I think it has lagged. I think what we're seeing now is hopefully a reenergized sales force with a lot more new people coming in.

The volume from those new people, it always lags. It will lag a few months but what we expect to see is meaningful improvement in North America in Qs 3 and 4. Whether that translates to growth this year or early next year, we're not sure, but that's a trajectory based on the number of new people we see coming in.

Chasen Louis Bender^ Got it. Appreciate that color. And then, John, just to come back to some of the comments you made at the end related to reprioritization of some of the tech spending on Herbalife One. Just curious if you can flesh out those comments? And then specifically, how are you thinking about that \$400 million in total spending on the program? And is that still the right

number? And then just again, related, can you remind us how much of that you've spent already?

John G. DeSimone^ Yes. So we spent about \$250 million already. So a lot of it's already spent. There's another \$150 million, \$160 million to be spent. That will be -- we'll spend less than that, almost less, I don't know yet. We're going through some work, but it will definitely be less than that. But the majority has been spent.

How we look at it going forward is what we've built, what the team has built is an entirely new infrastructure that allows us as a company to layer on meaningful new tools to our distributors in various countries. That started, but there's a lot of work left to do in that area. I think when the project started, we were going to customize everything, all the tools.

What's been built actually allows us now to go to the third parties and leverage the tools that they've built and plug and play into our new foundation. That's something we're looking at closely. We're actually pretty close with two different vendors. It may or may not happen. So I'm not going to give you names, and I'll give you an update as we solidify agreements.

But we're looking with two specific vendors that can bring a lot of functionality to our distributors and that we can plug into our current foundation, which we couldn't have done 2 years ago because the foundation was entirely homegrown and APIs wouldn't have worked and really would have broken the system. So that's really what we've got now is a new foundation. You'll start to see an acceleration of that turning into tools that can both drive sales and hopefully get us off old tools and save money.

Operator^ Our next question comes from the line of John Baumgartner with Mizuho Securities.

John Joseph Baumgartner^ First off, I wanted to ask in terms of the EBITDA guidance for 2024. It's a range of down \$20 million, up \$20 million year-on-year. And I guess that includes the \$40 million of savings from this new restructuring. How do we think about the reinvestment of these growth savings in terms of getting to a net savings contribution number for this year? And how do we think about the magnitude of the driver? Is that sort of govern where you fall on that range for EBITDA?

John G. DeSimone^ Well, look, it's a range. So I'm not going to pick to whether we're going to fall into the low or high end of the range, right? But that's the range. And it's based on the best information we have at the moment. I can tell you that offsetting in the current year anyway, offsetting some of the savings, the \$40 million savings. You remember the \$40 million is half a year of savings is an incremental close to \$60 million of bonus because this last year, bonus was achieved for the most part. And so there's an incremental accrual. It's actually higher than what it would be on this run rate going beyond this year.

So they somewhat offset and that creates the reason why, there's lots of ins and outs. But if I'm going to give you the big buckets, those are a couple of the big buckets to consider. When we get into 2025, the bonus gets reduced by 20 and the savings jumps from \$40 million to \$80 million.

John Joseph Baumgartner^ Okay. And then the -- of the 2025, that incremental \$35 million, I think it was in reduced tech spending, that's outside the scope of this new \$80 million program, correct?

John G. DeSimone^ Well, it's outside the scope, but it's not all tech. It was \$35 million. So we have a cost savings task for us that we're identifying opportunities to reduce expenses in the company. I think we can all agree they're too high. The restructuring program is just one of them.

On top of that, we've already identified \$30 million, \$35 million of savings for next year. More than half of that is tech. So tech is the majority of it, but there's a bunch of other things in it. And yes, all of that \$35 million is incremental to the restructuring.

John Joseph Baumgartner^ Okay. And then to follow up last quarter, there was some initial discussion regarding investments in up-selling some skill-specific distributor events and maybe even some marketing spending as well. And I'm kind of curious, as you sort of -- done your sort of world tour and kind of got out there, what's sort of your latest thinking on the opportunities for that reinvestment? Is there an order of operation there in terms of what comes first? Just your latest thinking there would be great.

Stephan Paulo Gratziani^ John, yes, just to clarify, was this around marketing expertise?

John Joseph Baumgartner^ It was a combination of just sort of upskilling distributors kind of plugging some white spaces and skill sets and I guess, supporting small business development.

Stephan Paulo Gratziani^ Yes, I think it was around -- so we run a couple of pilots actually. One of them was bringing in a social media marketing experts that actually was going to and did pilots with a group of distributors, different clubs, how to actually go out and drive more traffic to the clubs. And so things like that are happening. We've got a few different pilots. We've got another pilot, which is actually about how to communicate and take the lists and [mine] the list and be able to market to the list that clubs have. So there's different things that we're doing.

But in general, it really is the training that we're trying to focus on to be able to upskill the distributors. And so that's why I mentioned that we're moving from what typically -- if you look at North America, we would have monthly trainings we would call them STS and distributors would go to the trainings, many of them on a monthly basis. But that agenda was basically the same thing over and over. It was very, very basic.

The idea was really more to bring new people to have them experience it. So there wasn't very specific training on different models on how to actually go out and duplicate a Nutrition Clubs, become as effective as possible. And so this is a big shift for us. In terms of the spend, it's not that it's much more than we were spending before, but it's what we're doing with the money.

So an example is here in the United States, the STSs are moving more towards distributor model specific trainings we had leadership development weekends, which happened twice a year. They were also quite honestly, kind of a beefed-up version of what would happen monthly. We've changed those to be more specific to models and to bring in people that are training distributors on things that they've never had access to before.

So in terms of the spend, not a big difference in what we're spending. I think it's more on how we're spending it, just always thinking about increasing the value to distributors.

And then the last thing I'll say is, this -- we talked about the master classes on different models that were happening. And again, just to talk about this model in the United Kingdom right now, where we had our third master class last month. We had 2,700 people from 30-plus markets throughout Europe and I think even the world. And it was the third time that we've run that every time there's increased participation, people are interested. And what happens is that they're getting the level of training necessary to be able to go and implement the model and then support it through time.

So we are starting to see results on this. I think the recruiting activity that you've seen that's picked up over the last couple of months, it's also because people are figuring out in their models how to really have a model that flows well and to be able to duplicate.

So by the end of Q2, I think we'll have some additional things to report on that.

Operator^ (Operator Instructions) Our next question comes from the line of Anna Lizzul with Bank of America.

Anna Jeanne Lizzul^ I was just wondering if you can comment on how the rollout of Herbalife One is progressing. You mentioned today that it's now rolled out in the U.K. and Spain. Just wondering if you're seeing any early benefits from that and how are distributors and members kind of interacting on the platform?

And then just in terms of the reduced CapEx spend, I was wondering if you could elaborate on just the decision behind that in terms of the applications that you decided to postpone or eliminate?

John G. DeSimone^ I'll start, and then I'll hand it off to Stephan. So first, based on the question, I think maybe we should provide some context about what Herbalife One is. Herbalife One is not just a website for which people can transact, which I think it might be what you're asking about because we launched that in a couple of markets.

Herbalife One is an entirely new technology platform, it includes websites and transactions that can be -- that can occur online. There's also 10 other things that we're going to launch, and we're going to partner with other people to launch. So the biggest part of Herbalife One was actually this integration layer that allows tools to plug into all of our databases that didn't exist. So that's just some context on Herbalife One.

I'll answer how we decided to reduce CapEx and there's two things. It's Herbalife One in manufacturing. So on manufacturing, anything that doesn't have a 2-year payback or quicker. We don't need to do in manufacturing right now. So we cut that off on the list and the second is on tech, if it's not going to drive growth in the near term, we'll save money in the near term, then we're also going to push that out. And so that's how we decided to save on capital expenditures.

I'll pass it to Stephan to talk about how -- the -- it's very recent, but the very recent launch of the online transaction tool is doing.

Stephan Paulo Gratziani^ Yes. Thank you, Anna, for the question. So a couple of things. One is that Herbalife One, like John says, it's much more than just a website or an e-commerce tool.

What's really important to understand is that actually up until this project, distributors didn't even have an option to have a very simple way to be able to transact.

So just to kind of give a bit of background, if someone wanted to have an e-commerce in the past with us, the platform, shopping site, they would actually have to go out, they have to find their payment process or a lot of people just going through that process. It depends on your credit. It depends on releasing different things. They couldn't even get access to be able to actually transact on an e-commerce website.

And so part of the Herbalife One project also brought us to this point of becoming a merchant of record so that we could actually facilitate distributors being able to just simply say, "Hey, are you interested? Why don't you check out this." I'm going to send you a product bundle, you can just pay and that would allow them to have their customer easy, take the payments and then the company could process that payment, and we could pay them. And so there's a lot that goes into this.

The launch in the U.K. and Spain, has started with a group of about 212 distributors that was like first week of March through mid-April, something 40 days or something like that. Now there's [2,200] sites that have been actually created, and again, this never would have happened in the past where people could just sign up for a site and actually be able to start having customers go and to have a look at what they have and make a purchase and have it as simple as that. So it's the very beginning.

And I think the most important thing, it's not that they have just the access to have this easy way to transact with people. But like John was talking about, it's really about the tools that are going to allow them to go out and prospect and convert and have people come into the system.

And then obviously, what we use with all of that data and then the bigger picture of the platform of being able to deliver service and value to customers, because they're coming to a platform that delivers value, not just the place to buy something where there's value in the purchase, but there's no value in basically having their steps tracked, having their weight scale connected so that they can follow, same with their body fat and their muscle percentage -- muscle mass is like, and then being able to have the coach, which actually has all of that data that's coaching them that can help them through get the best results possible for them.

So this is, again, just the very beginning. This is also, I would say, a multiyear process. When I say multiyear, really where we want to go in terms of the platform that we want to become to serve and really give value to customers that makes it more attractive for people to come to Herbalife.

And so just one little thing on this is in China right now we are about to enter into a pilot with wearable devices. China is a little bit, I would say, a little bit of a simpler platform because it's one market very tech savvy, and very well organized. And so we are a little bit ahead on the platform there and actually kind of the connectivity of wearables. We've got a connected scale that we're taking tens of thousands of daily numbers of people that or monthly that I'll say, of people that are coming that's connected to a platform.

Very soon, there's going to be wearable technology that customers are going to be wearing and all of that's going to be landing on the platform connected to a distributor to be able to coach them and to help them along their journey.

So again, websites are great. We've got 61 of them in markets, 80% of market coverage for us in terms of volume. We've got a couple of markets with e-commerce very early on. We've got merchant of record capacity now that around the world will become very, very helpful.

But this is going to be a process over time. And quarter-by-quarter, we'll give you some updates. But that's kind of the general overall overview of what's happening.

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

Hale Holden^ I had two quick questions for you. The first one is the -- I apologize if I get this wrong, but the Premier Circle or Premier League new program launch. Can you sort of connect the dots on how that helps drive a lot of the distributor gains that you posted for April in the deck?

Stephan Paulo Gratziani ^ So the Premier League program, let me just kind of outline it for you. It's a program that's an annual program, and it really is a business builder program. So it's for people that want to be building an organization over time. To qualify for the program, the distributor needs to -- within the calendar year recruit 10 first-line distributors. So in and of itself, the program, if someone wants to be a part of it and qualify and get the perks, they've got to be focused on building new people. That's one element, recruiting new people.

The second element is the activation element, meaning that they need to not just sign up that they actually need to go out and then start to get their customers and start building their business. And so there's an activation element that they need to do each 1 of those 10 people, 250 volume points to be able to come active. And then there's a sales leader aspect of building. So it's really around having distributors see value, receive value but be focused on building an organization. And then there's a whole bunch of perks that come along with that. So just high level, that's the program.

Hale Holden^ Great. And then the second question I had was for whoever wants to answer, but I guess because Michael was just there. The return of growth in China is really impressive, and that used to be a very large part of your business a couple of years ago, pre-COVID. So I was wondering if you could kind of like frame out ambitions there or where you saw it going because it could be a large needle mover.

Stephan Paulo Gratziani ^ Yes. Well, ambitions are huge. The market, the opportunity is very big there. And we have been spending a lot of time just in the last 12 months in China, working with the leadership there and working with the company. We put new leadership in place, and we have very big plans in China. We've been -- we'll be adjusting things that need to get adjusted. We looked at the way that we actually have our sales leaders and our service providers there.

And with the compensation plan, the model, the direct sales model that we operate there, we made some adjustments that needed to be made. And I will say that it's working very well. We've had an uptick in something that we call LSP, which is basically a Learning Sales Provider that has grown 400% in a very short amount of time, which again is a leading indicator of what's happening there.

So big plans from a -- they're about to launch a preferred customer loyalty program which is actually quite advanced. We've never done something like this. So we have a lot of big expectations, big plans.

Yes, we're starting to see the results. And again, it's quarter-by-quarter. We'll be giving you more about it, but we're -- expectations and gold are very big there.

Operator^ Our next question comes from the line of Linda Bolton-Weiser with D.A. Davidson.

Linda Ann Bolton-Weiser^ So I was wondering at this meeting that you had of the top distributors in Lisbon, Portugal. Other than the GLP-1 drug megatrend, were there any other issues that were discussed broadly that they have their mind on in terms of really long-term ways of thinking about the business or any megatrends that are affecting the business? Or is there just anything else you could mention that came up?

Stephan Paulo Gratziani ^ Yes, Linda, I don't know -- so there really wasn't a focus or a mention of the GLP-1 trends. I think in the U.S., it's probably a little bit more in the media. Worldwide, I don't think it's really something that the majority of distributors are hearing about are focused on really. I can't think of anything except that the group based on the vision of the future was absolutely excited. I know maybe many of you talk to distributors, I think you're going to find the same thing when you're reaching out to the distributors that you have.

And if you look at the growth that we've had in terms of recruiting since that event, I think it speaks for itself where distributors are at right now because we haven't seen this for almost 4 years.

Linda Ann Bolton-Weiser^ Okay. And then I didn't study at the table where you show the new distributor growth in April, but I'm just wondering, is there something about like April? Like in other words, why isn't this big jump or this notable growth occur on March 15. I mean, was there some kind of incentive or something that drove the timing of this happening such that you're pointing it out right at that point in time?

John G. DeSimone^ Linda, it's John. Let me just jump in and if Stephan wants to add, he can. So we actually did see an increase right after Lisbon, which was in the middle of March. The reason why we're showing April is because if we only showed Q1, you just see 2 weeks' worth of results, and now you really get to see 6 weeks' worth of results.

And if you look at Slide 6 in the presentation, Stephan actually does also show March improvements over February. And that's just with 2 weeks. So March is where everything launched in Lisbon. I'm not sure if you were there, but that's -- there was a lot of initiatives put forward and distributors, what they were focused on Lisbon was Herbalife, not anything else, no distractions, and they left Herbalife motivated and inspired and they came back and they went to work, and that's why we see enhanced engagement, and that's why we're sharing that data with you.

We normally wouldn't share April but since the activity started late March, we wanted to share it.

Stephan Paulo Gratziani^ Yes. And if I can just add also, when we left Lisbon with the 4,300 leaders there, obviously, they were very excited. But we also continued on with a 4-weeks

training program that happened in April, where we had 140,000 distributors from basically all the markets around the world that participated over 4 weeks of training. And so really -- to the question that was asked earlier, I think it was Hale, it's the leveling up. It's the upskilling.

When you have 140,000 distributors, and you've got a Premier League program that they opted in for, they said, "I want to be a part of this, and I want the training", and 140,000 of them were on 4 weeks of training. That's where you get really this movement. And so it's just not talking to 4,300 and they're excited about the future. This is big plans.

Now as we move into extravaganza season, this talks to also the way that we're changing things. The value that they saw with Eric, it's having us even change the way that we're doing our extravaganza that we've done for 44 years. A typical extravaganza we'll have 8 speakers over 2 days that will each have a section of 40 minutes or 45 minutes. The decision has been made because of the value of the training for the distributors and upskilling them that actually there's going to be 4, 5 hours of content that Eric is going to be training for all of the participants in extravaganza.

So these are not things that are just a promotion. This is not just something to get excited about that's going to create some movements in numbers over a month. This is a long-term plan over the next 3 years to be upskilling and turning our distributors into professional distributors that have the skills necessary to go out and be impactful in their markets. And so long-term program, this is not just a little blip on the radar.

Linda Ann Bolton-Weiser ^ Great. And then just to speak on the distributor point, like the new people that are being added, the new distributors, can you characterize the demographics? Are they different than historically or similar or like -- is there any color you can give on that?

Stephan Paulo Gratziani ^ Yes. I don't have in front of me the demographics. I would say just as a distributor that's in 32 years building, I don't think the demographics have changed. I think whoever distributors have been talking to over the last few years, they're talking to the same people. It's their clients that are coming in maybe to a club. It's their friends that are looking for an opportunity I don't think that specifically that demographic would have changed. But it's a good question. And actually, I'm going to look at it because I think it's valuable. Maybe we bring this on the next call.

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

Jeffrey Wallin Van Sinderen ^ So how should we think about price increases versus volume increases as a driver of your revenue for the remainder of this year? Just wondering how you kind of bake that into your guidance.

John G. DeSimone ^ Yes. So I think you're familiar with our approach to price increases, which is to take -- we take them at CPI. And we take them throughout the year, and it depends on the marketplace. So you can see the impact of pricing over volume in our roll forward slide that we put on the screen, and that will be similar to what you see the rest of the year.

But I think what you'll -- our expectations are certainly for volumes to be improved in the back half of the year versus the first half of the year and you'll see a little bit more net sales coming from that.

Jeffrey Wallin Van Sinderen^ Okay. When you say improved, do you mean improve sequentially? Or do you mean volumes up I mean second half year?

John G. DeSimone^ I mean, the trend we expect the trend to improve in the second half of the year, which means either up or at least less down.

Jeffrey Wallin Van Sinderen^ Okay. Got it. And then I realize you've done a lot around the new GLP product line. Maybe you can speak to your latest plans to further evolve the weight management business and the time frame, I guess, for the next milestones to look for there, kind of amidst the GL drug phenomenon?

Stephan Paulo Gratziani ^ Yes, I can speak to that. We're really following Jeff, the lead of our distributors on this one. It's quite interesting, and I don't want to speak any specific companies, but I think that there's a couple of companies out there they're trying to really from the top down dictates in which direction they go in terms of the market, the GLP-1s.

We are really listening to our distributors. We want to support them and make sure that we've got the products like the product bundle that you've just seen. Some of them are very excited and are seeing opportunities. Other of them, it's just not something that they personally see because of the way or the way that they are doing their business and how they're going to go out and attract those particular customers that would be on GLP-1.

So we are supporting them. We are also making sure we're paying attention where we need to pay attention so that when the time comes, if they want more support or if we think that we need to pivot a little bit faster or stronger into something, we'll be able to do that. But for the time being, we're not seeing the huge demand that I think some companies are feeling that they are seeing or are reading and that they're making these big moves.

We're going to make timely moves supporting our distributors, and we feel that's really the best strategy and the best way forward for us. So not denying there's a market for it and not -- and totally watching where that market is going and being prepared, but respecting and working with our distributors to make sure that we are doing the right thing.

Operator^ (Operator Instructions) Our next question comes from the line of Karu Martinson with Jefferies.

Karu Martinson^ Just to clarify here, you said that much of the \$262 million of the [stub] piece will be paid off with cash flow, 2/3 of that was free cash flow in 2024. So that would imply kind of a \$173 million or so would be paid off with cash flow that is generated in 2024, correct?

John G. DeSimone^ Yes. But let me just make sure I'm clear. So your math is right. What we're saying is we're going to pay off the whole \$262 million from cash flows generated from the business between now and when it's due in the third quarter of 2025. 2/3 of that is actually inherent in our guidance for this year, which is you did the math. And that means we'd have to generate 1/3 from cash flows next year in the first 3 quarters to be able to pay it off without anything else happening.

Now we have -- there's also -- where we've got our administrative building that's up for sale because we don't need the space with the reductions that we're taking. So that's some cushion, that's not in the number. There's obviously tons of availability on the revolver. So there's a lot of

cushion in order to pay it off, but I wanted to at least give visibility to investors on how we think we're going to pay it off with cash flows from operations.

Operator^ Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back over to Michael for closing remarks.

Michael O. Johnson ^ Thank you very much, and thanks, everybody, for being on the call. I think you're seeing a new Herbalife emerge here today. And the really wonderful thing. I'm stealing two lines from Stephan's presentation, with experienced year-over-year growth in the distributor numbers in April across all regions. The last time this occurred was almost 4 years ago in 2020. And that everything we do daily as our distributors in mind and focused on helping them attract and retain more customers, distributors in building bigger businesses. Those are two key elements to where we are today and where we're going.

We're bringing more people into the company. We are making sure in bringing Stephan in and building this team with John and Ibi in North America and Rob, the team that's been built around the world to now focus 100% our effort and energy on doing things, whether it's digital, whether it's product, whether it is training, whether it's bringing in Eric Worre to join us on our mission here it is distributor focused to help them build their business, help them build a better customer base with products that respond to the marketplace and the needs to work on transformation of customers and consumers to help them along their healthy and wellness lifestyle activities and their journey that they're there.

And this is what makes us very unique. 67,000 Nutrition Clubs. It sets us apart. And Stephan mentioned a couple of companies that have jumped head over heels into the GLP world. We're looking at that very carefully. We negotiated with a lot of people, talk to a lot of folks about the potential of GLP-1 in this company.

And so the best way for us to do this is do it organically, let our distributors come back to us with a plan with an opportunity in the marketplace, make sure our products respond, make sure our business activity responds to it.

But also the things that we're doing in these clubs that differentiate us is not only transactional, Stephan mentioned, in terms of people coming in, grabbing a shake and going out the door but also people coming in to work on transformation in their lives. How do I lose weight? How do I get healthier? What activity can I take? What community can I be a part of? This is what makes our company so different, so unique, sets us apart from other folks in our sector.

We have a real understanding of some of the challenges in the direct sales industry with some of our competitors but we know we're different. We have an incredible management team here. We have the incredible opportunity with Stephan on board, with John back with me to make sure that what we're doing inside this company is focused every single day on top line, building the business stronger, more recruiting, more selling, more opportunity, bottom line efficiency, laser-focused on costs, making sure that our digital platform is laid out in a fiduciary sense and making sure that we are delivering tools and opportunity to people. This is a special, special company. Very, very unique.

I'm here because of my passion for Herbalife, my belief in what we do. Our concern for our opportunity has never been greater. I'm not concerned, but what should I say, the opportunity for our opportunities never ever been stronger than I've seen it. We're going to go up. We're

going to build this business stronger and better. I'm more confident than I have been in a long time. I've been back a little over 1.5 years and the excitement just keeps building inside Herbalife.

So thanks for being on the call. We're going to have more good news for you in 3 months. So stay tuned, and let's go Herbalife.

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