

**Herbalife Nutrition Ltd.**

**Moderator: Eric Monroe**  
**May 07, 2020**  
**2:30 p.m. PT**

OPERATOR: This is Conference #3886534

Operator: Good afternoon. Thank you for joining the first quarter 2020 earnings conference call with Herbalife Nutrition Ltd.

On the call today is Dr. John Agwunobi, the company's CEO, John DeSimone, the company's President, Alex Amezcuita, the company's Senior Vice President of Finance, Strategy and Investor Relations, and Eric Monroe, the company's Director, Investor Relations. I would now like to turn the call over to Eric Monroe to read the company's safe harbor language.

Eric Monroe: Before we begin, as a reminder, during this conference call, we may make (inaudible) in a more meaningful and consistent manner as discussed in greater detail in the supplemental schedules to our earnings release.

A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release submitted to the SEC.

These reconciliations, together with additional supplemental information are available at the Investor Relations section of our website, [herbalife.com](http://herbalife.com). Additionally, when management makes reference to volumes during this conference call, they are referring to volume points. I will now turn the call over to our Chairman and CEO, John Agwunobi.

John Agwunobi: Good afternoon, everyone. First and foremost, I hope you and your families are all safe and healthy. This is an extremely challenging time for us all, and our thoughts are with those most affected by this global pandemic, especially those on the front lines of the crisis.

As you saw from our press release, the first quarter was an all-time high in terms of volume points. We and our distributors are working hard to overcome the various challenges we've encountered to ensure our nutrition products are accessible to customers. Our factories as well as our third-party manufacturing facilities are operating at close to normal capacity.

As many of you know, the majority of our products are foods, yet there have been last mile delivery disruptions and nutrition club restrictions in various markets. We believe the strength of our direct selling model and our culture of collaboration with our distributors have helped us to minimize the impact of those disruptions to date, by sharing best practices and developing localized solutions.

Our distributors have been utilizing consumer-facing technology to interact with their customers, particularly in cases where face-to-face interactions are unable to take place. Attendance at virtual product training and business opportunity meetings have been extraordinarily strong.

For example, a recent virtual meeting in North America had over 40,000 participants. Additionally, we've been utilizing our training teams in new and exciting ways. For example, our doctors have offered virtual trainings on our products and on how to stay safe and healthy.

And our sponsored athletes and fitness experts are leading at-home virtual workouts around the world. The learnings and enhancements that we have had from this time will only benefit us in the future.

While we focus on the immediate priorities related to the pandemic, we continue our work to successfully deliver against our strategic initiatives.

Our strategy is working, yet we're constantly learning new ways to build it better and to innovate so that we come through each challenge stronger than

before. We will continue to evolve our strategy to best support our distributors as they grow their businesses and drive the company forward.

Turning now to updates on our top 4 markets. Let's start with China, where volume points grew 29% compared to the first quarter of 2019. While this growth was extraordinary, and due to the team's ability to quickly adjust to changing...

Okay. Listen, let me start by apologizing to everybody for the technical issues. What we're going to do now is we're just going to keep going. I'm going to finish out my statement here, and then we'll hand it off to Alex.

So we're talking about China, where the volume points grew 29% compared to the first quarter of 2019. And I was saying that, although this growth was extraordinary, and it was due to the team's ability to quickly adjust to the changing marketplace dynamics, I want everyone to remember that last year's performance was impacted by the Chinese government's 100-day review of the health products industry. We learned from last year's review that we needed to be less reliant on large in-person meetings.

And therefore, we created a very robust e-commerce platform, and we moved many of our sales meetings online. These moves have proven to be extremely helpful during the pandemic. As the economy in China reopens, so have approximately 90% of our nutrition clubs, with social distancing measures in place.

Now in the U.S., the first quarter and the month of March were all-time record highs. We did see an initial decline in sales in mid-March, especially in nutrition clubs, as states and localities placed restrictions on commerce.

However, this decline has been partially offset by the ingenuity and the creativity of our distributors, who pivoted and focused their energies on increasing home deliveries and carry out services.

India volume increased by 15% during the quarter, but the pandemic had an adverse impact on sales late in the quarter and on into April. Finally, in Mexico, volume points were down 7% in the quarter.

We are seeing some softening of sales attributable to the pandemic in addition to the already difficult economic conditions in that market. Due to the uncertainty surrounding COVID-19's evolving impact on our business and on the global economy, we are unable to provide guidance at this time.

However, for transparency, we are providing you with April volume performance. Given the magnitude of the restrictions put in place by local government in response to the pandemic, we are encouraged that volume points for the month of April were down by only 1% compared to April 2019.

Again, we believe this strong performance speaks to the strength of our direct selling model and our distributor culture. We are confident our business can continue to manage through this pandemic, and that we will come out stronger at the end.

Here are a few reasons why. Well, first, this is a global event, but it's very local in the way that it impacts each country, each city and each community. We have an innovative infrastructure, and our distributors know how to operate effectively in their local communities almost at the block by block level.

We're encouraged by the way our distributors are connecting with and servicing their customers in this environment. Second, good nutrition, and healthy active lifestyles have always been important, and people are realizing that, that is true now more than ever before.

And finally, the need for supplemental income has always existed, and our business model may help provide an opportunity for some at this time. It's remarkable how our distributors and our employees have stepped up together to keep our businesses moving forward, and I couldn't be more proud to be part of this company at this time. So at this point, let me hand this over to Alex to review the financials.

Alexander Amezquita: Thank you, John. Our record-setting volume in the quarter converted to first quarter net sales of \$1.3 billion, representing an increase of

7.7% on a reported basis compared to the first quarter in 2019, and included double-digit net sales growth in 6 of our top 10 countries.

Adjusting for the headwind in foreign exchange rates, net sales for the quarter increased 10.4% year-over-year. We reported net income of approximately \$45.6 million or \$0.32 per diluted share, which includes an additional legal accrual of \$83 million related to the SEC and DOJ investigations on the FCPA matter in China.

Adjusted earnings per diluted share were \$0.83, an increase of 27% compared to adjusted earnings per adjusted diluted share of \$0.66 for the first quarter last year. Note that our reported and adjusted results this quarter included expenses related to the China growth program of approximately \$2.2 million.

Additionally, our adjusted EPS figures continue to exclude items we consider to be outside of normal company operations or we believe will be useful to investors when analyzing period-over-period comparisons of our results. As such, we have excluded net expenses related to the response to COVID-19 of \$5.8 million during the first quarter.

The impact of currency fluctuations represented a year-over-year headwind of only approximately \$0.02 on results for the first quarter despite the approximate 270 basis points headwind to net sales.

This is due to headwinds and other short-term offsets within the quarter. COVID-19 sentiment drove a significant strengthening of the U.S. dollar in late March, and is expected to have a more material impact on EPS results for the remainder of the year should currency rates stay at current levels.

Reported gross margin for the first quarter of 80.5% increased by approximately 115 basis points compared to the prior year period. The increase was primarily driven by the impact of retail price increases and lower inventory write-downs as well as the roll-off of the Mexican retaliatory tariffs that impacted the first quarter of 2019.

First quarter 2020 reported SG&A as a percentage of net sales of 43.5% on was primarily driven by the previously mentioned legal accrual of \$83 million. Adjusted SG&A as a percentage of net sales was 36.4%.

And adjusted SG&A, excluding China member payments, was 28%, approximately 140 basis points lower than the first quarter 2019, primarily driven by the cancellation of a major distributor event and the cancellation or delay of a number of other events and activities, all due to the impact of COVID-19.

As John mentioned, given COVID-19's impact on our ability to provide guidance, we are disclosing preliminary April volume point results. April preliminary volume point results provide some insight as to the severity different markets have been impacted by COVID-19 restrictions as well as the phase of the impact.

For example, China and the U.S. are up 20% and 14%, respectively; while India and Brazil are down 30% and 31%, respectively. We will periodically reassess our ability to set 2020 guidance as and when we can reasonably estimate the impact of COVID-19. Related to the balance sheet, we currently have \$944 million of cash on hand and \$1.5 billion in our share repurchase program.

Our financial profile remains strong with ample liquidity and a favorable debt maturity schedule. During mid-March, we announced an amendment to our existing credit facility that modestly increased borrowing capacity, extended the maturity and reduced the interest rate applicable to the Term Loan A facility and revolver by 50 basis points.

Being able to execute this amendment during these uncertain macroeconomic times demonstrates the confidence and support our lenders have in Herbalife Nutrition. This concludes our prepared remarks. Operator, please open up the line for questions.

Operator: (Operator Instructions) Our first question is from the line of Wendy Nicholson with Citigroup.

Wendy Nicholson: A couple of questions for you, if I can. The first one, the major distributor event, I know that had been obviously something you were looking forward to, and it was a big deal. And so I understand why there were such big cost savings. But what's your thinking in terms of rescheduling that?

And I'm wondering for 2 reasons: number one, the impact of the P&L to the extent their costs that we should build in maybe in the back half some time; but also in terms of keeping the momentum alive, do you think that's necessary for the momentum and the goodwill among the distributors?

John DeSimone: Yes, this is John. I'll take that. So the event was done virtually. There will not be a live honors this year. I can tell you, I think it was done in a way and in collaboration with distributors that was actually motivating, it does keep the momentum going.

In terms of savings, look, we spend a certain amount of our percent of sales on distributor events and promotions, and we hope to get back to that same level by the end of the year. It may be redirected into something else, but I think it will be somewhere included in the model.

Wendy Nicholson: Got it. And then my second question is with regard to China. Can you give us a sense on the volume points of up 29% in the quarter are stunning, that's fantastic. And I know it was an incredibly easy comp.

But is there any way you can break that down kind of January, February, March, so that we can get a sense for how much COVID impacted you maybe in February or March versus how much growth you saw in January? I don't even know that would be helpful or meaningful, but just curious to try to get a sense of whether COVID was, in fact, a big deal or not in China in the first quarter?

John DeSimone: Yes. So it's -- I'll give you some numbers, but let me first qualify it. It's difficult to look at because of the timing of Chinese New Year this year versus last year, plus the impact of the 100-day campaign last year.

What I can tell you is the growth rate of China in March was about equal to what it was in Q1. It was 29% growth rate in March, it was 29.4% for the quarter.

But the spread between January and February, it's really, if I gave you numbers, it'd be really hard for you to embrace it and know exactly what it means because of the timing of Chinese New Year this year, it started in January, last year, it was in February. So it is a big mix issue resulting from that. Obviously, it means January and February combined was around 29% growth.

Operator: And next, we have a question from the line of Karru Martinson with Jefferies.

Karru Martinson: When we look at the regional volume points in April, I had to -- when I look through that list, it's North America and China, where I think you made progress with your e-commerce platform.

How much was that improvement in those markets driven by having e-commerce? And does that change your thinking about how you would roll that out to the rest of the globe?

John DeSimone: Yes. I think it's more than just e-commerce. So first, I think big picture, in countries and regions that have sophisticated infrastructures, the ability for distributors to find alternative methods to do the business or enhanced. Those with maybe some weaker infrastructure is a little more difficult. Also, China and the U.S. have preferred members, and that helps in preferred members. In April, actually, in the U.S. was a record number of new preferred members.

So I think there are some benefits that we can learn from China as performance and from the U.S. performance that will enhance other regions over time as we accelerate the rollout of some of these tools. Of course, when you start looking at India and Brazil and South (inaudible) and South America, the lockdowns were a little more challenging in general than they were in the U.S.

Alexander Amezquita: And they're ongoing.



John DeSimone: And they're on going. So some of that plays enrolled into also.

Karru Martinson: Okay. And then when we look at the nutrition clubs, certainly encouraging to hear them pivoting and doing more carryout and delivery. But how are they performing? Are they getting rent relief for the times that they're required to be closed? What's the health of your distributors here in the U.S. in particular?

John DeSimone: Yes. Well, so obviously, nutrition call volume is down, but the U.S. is having record performance. A lot of the nutrition club operators do more than just operating nutrition clubs.

They have preferred members. They have the ability to sell what we call customer-direct shipments. Customer-direct shipments in the first quarter -- or in April, excuse me, was up 40%. And so I think they're just finding alternative methods.

As far as rent abatement and things like that, I don't know, it's going to be very specific to each individual distributors. So I'm not aware of it. But look, April was the largest month in the history of the U.S. So overall, distributors are performing very well in the U.S.

Karru Martinson: In terms of the states that are reopening, where do nutrition clubs land on the - - all of the state-by-state guidelines of what needs to be met? How quickly can distributors open up that channel for you?

John Agwunobi: That's a very localized question, so I don't know the specifics, right? But when you think of clubs, first of all, they're selling food, they've been doing curbside and deliveries in many states.

Think what you're asking is when things open up or they can go back to normal, how quickly will they come back? That's going to be a question I'm not yet prepared to answer. But like I said, the U.S. is just set -- the highest volume month in U.S. history was March, and they beat it in April.

Operator: And our next question is from the line of Hale Holden with Barclays.

Hale Holden: I have 2 questions. The first one is, I heard your comments on Latin America and Brazil, is it just really the lockdown and the economy there? Or is there something else going in that market? Because it is an outsized decline for volume points versus your other trends?

John DeSimone: Yes. So lockdown is more impactful there for a number of reasons. So for example, in Brazil, clubs is just not open, not even not doing delivery, they're not open. We have a lot of third-party logistics providers in these countries, some of those have shut down.

So the access, like, call it, the last mile that the consumer has access to the product has been restricted in a lot of the same South and Central American markets, much more than the rest of the world.

And then let me just add, I want to add this because I feel like South and Central America, including Brazil, had 7% growth in the month of February had combined growth in January and February. It was March that brought Samcam into the negative. So that we were seeing good trends in South and Central America prior to impact of COVID in March.

Hale Holden: That's helpful. And then I was wondering if your reps had sort of shifted their marketing or their value approach to adjust for lockdown restrictions?

Whether it was focusing something -- some more on the vitamins that you guys have been highlighting? Or if it was meal replacements to keep you healthy while you're not leaving your house to keep weight off, and just some of the shifts that they've been doing dynamically?

John Agwunobi: I don't necessarily know if the distributors are shifting -- whether it's more a response to the demand that they're seeing for their customers.

So for example, in a lot of countries, we've seen an increase in the immunity portion of our portfolio for those particular products, as people start thinking about staying healthy to avoid any potential, just making sure they stay strong and healthy.

So we have seen demand shift to different parts of our portfolio. I wouldn't say that it changes the equation for distributors in terms of their business model in any material way. But we have seen some modest shifts in purchasing behavior.

Operator: (Operator Instructions) Our next question is from the line of Stephanie Wissink with Jefferies.

Stephanie Wissink: Just a few questions for us. The first one, we wanted to unpack a little bit more on the digital sales. Can you just remind us what percentage of the business is dot com? And just to share a little bit more on some of the tools that you might have put into the market during this period to help your distributors bolster some of the sales opportunity?

John Agwunobi: Yes. So I think the most dramatic market where we've seen the change in digital behavior was China. Obviously, in 2019, as we responded to the 100-day campaign, there -- the reliance on meetings we talked about putting in second and third legs to the stool, so that distributors would have alternative means to do the business.

We've seen that really come to fruition as we've gone through the COVID-19 situation, around 30% of transactions in China are now coming through that digital platform, right? So that's effectively going from 0 to 30%, which is a pretty significant impact. So that's a market where you've seen the digital platform really come to bear. In the U.S., there's been an increase. I don't have the exact statistics, but it has gone up.

Alexander Amezquita: Yes, I got them. I mean, so if you think of customer direct, which is going on the GoHerbalife site, it's around a little over 20% of our -- 22% -- 21%, 22% of our business goes through that platform or it did in April, okay?

So this is -- we're talking kind of post the impact of COVID. But in the U.S., there's a lot of digital platforms, preferred members order directly from the company, we have Nutrition Club using different digital tools, I'm really speaking specifically to the dot com site.

Stephanie Wissink: Okay. That's great. And then I'd like to ask you to just extrapolate a little bit on the disclosure around the FCPA both on the call and in your filing today. I think that the language you use is you've reached an understanding in principle, and you'll enter into administrative resolution.

Can you just talk a little bit about that? Where you are in that process? And then what that may permit you to do with respect to some of the cash and the buyback?

John Agwunobi: Yes. So, Stephanie, thank you for your participation, your questions. Hope you're staying safe, by the way. Yes. So as you can -- as you saw from the update, the disclosure in our 10-Q regarding the SEC and DOJ investigation, is -- all the detail that we can share with you is in the Q, and I would refer you to the Q for further details on that.

Having said that, we do believe that it has freed us of any material nonpublic information that would have affected our ability to repurchase shares.

Now having said that, we're also mindful of the fact that we have to stay prudent and use good judgment in the face of COVID-19 and the inevitable impact on the economy that we are aware of so we're having to navigate kind of see what's happening beyond DOJ, SEC, and now COVID and the economy -- we're trying to balance everything as we look to the future.

Stephanie Wissink: Okay. That's very helpful. Last one for us is just your enthusiasm around the U.S. on reaching the highest number in April, it's certainly palatable. Can you talk a little bit about new customers? How you think about retaining those customers? Just life cycle value of some of those new customers that you're bringing in?

Alexander Amezquita: Yes. I mean, so the new customers in the life cycle of customers are the 2 obvious metrics that are really important to us. I'm not going to give you the number of new customers that came in over the last couple of months.

I can tell you that the average order size in the U.S. has gone down, so the growth in the U.S. has come from more people ordering. We will measure the

lifetime value of those customers and the reorder rates as we go forward. But it's encouraging that the growth is coming from more people ordering.

Operator: And our next question is from the line of Ivan Feinseth with Tiger -- I'm sorry, Tigris Financial.

Ivan Feinseth: Congratulations on the record results, especially in a difficult time. So driving these record results, what do you think were some of the factors? The key products? What most surprised you?

And what do you think the opportunities here are going forward and a lot of people addressing the fact that one of the ways -- the best way is to stay healthy is to be healthy. So I think there is a huge amount of opportunity for a company like yours?

John Agwunobi: Yes. Thank you, Ivan. So first of all, let's be very clear. No one wishes these kinds of situations on anyone. This is a crisis by any definition, and there are many families, our customers, perhaps even some of our employees and distributors out there who have either lost love ones or had to suffer through the illness themselves.

So that's the first thing, I think, is critically important. Having said that, at times like this, people do tend to reevaluate their own personal situations.

They look at their health, they look at their income streams, they look at the security of their families, and they make assessments as to how do they improve things for themselves and their families in the future. It's also, I think, critically important that we went into this crisis really connected to our communities through our distributors.

They're really embedded at the very local level in communities. The whole business model is built around what we call the circle of influence. Our ability to our ability to kind of connect through families and friends into the community.

And it's proven true. It's proven to be very useful in this situation where people are locked down. They're able to kind of -- distributors and their

customers are able to stay connected, and it's been a very effective business model. The proof-of-concept has been, I think, quite clear.

I'll also say this, that when all is said and done, healthy nutrition and a balanced healthy lifestyle are the ways to stay healthy. And with that, people - - the demand for our products and for our services has gone up around the world. And I'm just glad and grateful to the whole team that we've been able to meet that increased demand.

Now as we look to the future, and that was the latter part of your question, it's an important part because it's a big part of our -- it was always a big part of our strategy, and this helps us accelerate the notion.

Connecting to technology, bringing technology into our front office, so to speak, and into the transactional aspects of our distributors' work was always on our strategic plan.

It's become even more important as a part of this, whether it's Zoom or social media or the many other technology-based platforms that are a part of our business, e-retail and so forth, they've all become even more important. And then we'll accelerate our kind of rollout of those strategies around the world, I think, as a result of what we're learning today.

Ivan Feinseth: Any specific products that you saw a surge in demand, for example, like the immunity products or even stress management products that surprised you?

John Agwunobi: I'll turn it over to Alex, just a second to give you the details if you require. But I will say this, all of our product categories have seen increased sales. It's true that those products that are most associated with immune support perhaps more than others. But Alex, do you want to add any detail to that?

Alexander Amezquita: Yes. Ivan, there has been broad-based growth across the portfolio, as John just mentioned. I did mention immunity in my response earlier, because we have seen that a little bit more disproportionately grow than other elements of our portfolio.

But really, if you look at targeted nutrition, our sports line is up double digits, targeting nutrition is up double digits. Outer nutrition is up double digits. It's really across the whole portfolio. So we're just grateful for that.

Operator: And at this moment, I'm showing that we have no further questions over the phone lines. I'd like to turn it back to our presenters for any closing remarks.

John Agwunobi: Yes. So this is John Agwunobi here. And I just -- I want to start by obviously saying how fortunate we all are in Herbalife Nutrition, for our distributors and their innovation, their resilience and their work in the face of this crisis.

Their customers, their preferred members, their relationships in the community have made a big difference in their independent businesses and in the company overall.

As we look to the future, clearly, our focus is, one, let's kind of get through this and continue our growth into the future, focus on our strategy and our long-term view; but I do think it's important that we stop for a moment and just kind of make sure that each of you, you're our partners as well, that you stay as safe as you possibly can.

We will get through this, I'm talking about the pandemic, and the business will continue to thrive and grow into the future, as we've indicated, at least that's what we believe. And we think our model is the right model. And it's proving itself to be a great model in this time. And so with that, I say thank you. Stay safe, and we'll see you next quarter.

Operator: Ladies and gentlemen, we thank you for joining us for the first quarter 2020 earnings conference call for Herbalife Nutrition Ltd. You may now disconnect.

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