

Herbalife Nutrition Ltd. (Q2 2023 Earnings)

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Corporate Speakers:

- Michael O. Johnson; Herbalife Ltd.; Chairman & CEO
- Alexander R. Amezquita; Herbalife Ltd.; CFO
- Erin Banyas; Herbalife Ltd.; Head of IR

Participants:

- 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
- Jonathan Daniel Keypour; BofA Securities, Research Division; Associate
- Karu Martinson; Jefferies LLC, Research Division; Analyst
- William Michael Reuter; BofA Securities, Research Division; MD & Research Analyst

PRESENTATION

Operator^ Good afternoon and thank you for joining the Second Quarter 2023 Earnings Conference Call for Herbalife Limited. (Operator Instructions). As a reminder, today's conference is being recorded. I would now like to turn the conference over to Erin Banyas, Vice President and Head of Investor Relations, to begin today's call. You may begin.

Erin Banyas^ Thank you, Tuwanda, and good afternoon, evening, everyone. Joining us today are Michael Johnson, our Chairman and Chief Executive Officer; and Alex Amezquita, our Chief Financial Officer.

Before we begin today's call, I would like to direct you to the cautionary statement regarding forward-looking statements on Page 2 of our presentation and in our earnings release issued earlier today, which is available under the Investor Relations section of our website. The earnings release includes 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 Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. As is customary, the content of today's call and presentation will be governed by this language.

In addition, during today's call, we'll 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 for additional information regarding these non-GAAP financial measures and the reconciliations to the most directly comparable GAAP measure.

Following today's call, the presentation materials will also be made available under the Investor Relations section of our website. And with that, I will now turn the call over to Chairman and CEO, Michael Johnson.

Michael O. Johnson^ Thank you, Erin, and good afternoon and good evening, everyone. I want to start today with one simple message, that our team and I are feeling as confident about Herbalife today as we ever have. There are so many good things going on in our company. We are building strong momentum and our trends are improving. Our net sales for the quarter were \$1.3 billion, and this is the second quarter in a row that our year-over-year net sales trends improved. In addition, our overall financial performance has improved from the first quarter of this year. And while Alex will present all the numbers, I can confidently say we're making steady progress.

Since our last earnings call, we've been on a world tour. We've hosted 5 Extravaganza. And for those who aren't familiar, these are large multi-day in-person regional distributor training events. We started in Singapore, and then we were off to Nanjing, Lima and Bengaluru. And just last weekend, we were in San Antonio, Texas. And it's important to note that these are the first in-person events we've held in Singapore, China, Peru and India since 2019. This is a time for our distributors to train, to motivate, to understand, to shape the business methods and develop recruiting techniques and reenergize their business. Over 90,000 of our distributors attended these 5 events.

In Singapore, many of our distributors were first-time attendees. In Nanjing, a majority of the attendees were millennials and Gen Z. In Lima, the event sold out in 2 months, so we offered a virtual option, which garnered an estimated 10,000 additional virtual distributor attendees. In Bengaluru, we had a record attendance, so we split the main event into 2 separate sessions. And in Texas, in addition to our main event, we hosted a mega fit hour and filled the streets of San Antonio with distributors working out in the heat and the heart of Texas.

I spent a lot of time with many distributors at these events to understand their stories and how their businesses are doing. Our distributors are more energized and engaged in our business than I've ever seen. We'll be back on the road in September as we head to Kazakhstan, Mexico, Brazil and Poland. These events are super important and set in motion new recruiting and retailing activity. It goes without saying, our Herbalife distributors are our #1 asset, and they are gifted entrepreneurs. We have many long-term successful distributors with solid down line organizations, and we also have many upcoming leaders from younger generations that are introducing new innovative daily methods of operations or as we say, DMOs.

They are embracing the healthy active lifestyle movement with weight loss and transformation challenges, fit camps, digital marathons and even more. We recognize our world is evolving, and our business is evolving to modernize with it. We are continuing to launch products on a regional basis. During the second quarter we launched a Red Ginseng product in an individual ready-to-drink format, locally produced for the Korean marketplace. In this past week under the North American Extravaganza, we launched our vegan line, Herbalife V, for the U.S. marketplace. This line includes 5 plant-based products, including 2 protein shakes, a greens booster, a digestive support and immune support product. The plant baseline is made with organic ingredients backed by science, quality tested and easy to incorporate into a daily routine. They are third-party certified vegan organic Kosher and non-GMO. And I can attest, they all taste great.

Initial reactions from distributors have been overwhelmingly positive. The plant baseline opens the door to not only a whole new group of customers and distributors, but also provides an opportunity for existing distributors to expand their business. This launch is a testament to our commitment of product quality and market innovation. Speaking of quality and innovation, our internal team, world-class technical partners and a team of distributors have been fully immersed and engaged in the development of Herbalife One, our new fully integrated modernized digital technology platform. We're excited about this digital frontier. It is the face of the new Herbalife. That's a modern look and feel and is more representative of our new brand. It will streamline distributors' businesses, accelerate data utilization, reduce costs and simplify transactions for both distributors and customers. With this, we are launching a new Herbalife and are supporting our distributors and their customers with a modern and innovative tools in order for them to grow their businesses.

This quarter, we began launching Herbalife One. We kick off the website launch in Singapore, where we will test, refine and optimize the content and functionality as necessary prior to expanding it to approximately 40 additional markets that represent approximately 80% of our sales by the end of this year. Later this year, we plan to launch the new distributor e-commerce platform in the U.K. and Spain, with the majority of the remaining markets to launch in 2024. This has been a tremendous undertaking by the team and is a critical step as we continue to modernize and move towards our next chapter of Herbalife growth.

As you've seen in the press, the GLP agonist drugs are getting a lot of headlines. They were first approved by the FDA in 2005 to treat type 2 diabetes. And recently, certain brands of the drugs have been approved for weight loss, and we are watching this trend closely. We recognize that GLP-1 drugs do help certain individuals, and we are evaluating various paths and how Herbalife and our distributors can benefit from this potential demand, whether it is through a telehealth solution or providing support to adhere to a healthy lifestyle. But as we know, developing better nutritional and healthy active lifestyle habits requires behavioral change, which is a core strength of our distributor base and this is no different for those who are interested in the GLP-1 drugs. We will continue to study this and when we see an opportunity to capitalize on it, we will.

I'm also very excited to announce an addition to our executive management team. After more than 32 years as an independent distributor and a proven track record of global business growth across 70 markets throughout North America, South America, Europe and Asia, Stephan Gratziani, will join the company as Chief Strategy Officer, reporting to me. This is a game changer. Our team internally and our distributors see this is a great opportunity to advance our business models, open our minds to greater opportunities and improve our speed to market. Stephan is one of our top 3 independent distributors in the world for 2022. He was named of the company's Chairman Club in 2010, and in 2018, he achieved the highest distributor level of Founder's Circle. He has built a tremendously successful business, and this is a wonderful opportunity for all of us. I have worked closely alongside Stephan for years.

During his time as a distributor, he has been an integral member of various strategy and planning groups for distributors and the company. He is highly effective as a strategist and one of the most data analytic-driven people I know. He brings a new voice inside the company, the voice of the distributor with valuable field experience. In the ever-changing landscape of our business, we want the distributor voice to be even more integral as a part of our company.

Herbalife, as you know, is different than other companies that operate traditional business distribution channels. All of our top line growth comes through the performance of our distributors, how well the company and its distributors work together and support each other in order to fulfill their individual responsibilities will dictate our potential for growth in the future. As we look to the future, Stephan will create even more synergy in alignment between the company and our distributors. It will be an advantage to have an executive who can leverage the decades he has spent developing skill sets, building sales teams and processes and navigating an ever-shifting marketplace. It is important to note that in connection with Stephan becoming an employee of the company, we have agreed to suspend his Herbalife distributorship and he has waived any rights to its distributorship earnings under the company's marketing plan during the term of his employment with the company. In addition, on Tuesday, Stephan stepped down from our Board of Directors.

I would also like to announce that John DeSimone will transition from his position as Chief Strategic Officer to Special Adviser to Herbalife. John has also been an integral part of our organization for nearly 16 years and will continue to play a pivotal role going forward. I'm feeling really confident about Herbalife, more today than I ever have.

We told you last quarter that our trends indicate we would see growth in the fourth quarter. And from where we are sitting today, we believe all key indicators are we will return to growth in the fourth quarter of this year. Things are changing in our world. With the gig economy, healthy lifestyle trends and consumer preferences, we believe we are well positioned to evolve in this changing world, and we'll continue to leverage best practices around the globe.

Coming out of the pandemic, changes sped up, how we recruit, introduce and create successful business flow for a new distributor is job one for everyone at Herbalife. We're moving in the right direction. Herbalife One is progressing and on track. Our Board, distributors and management are all committed to our return to growth and margin expansion initiatives. We are laser-focused on the top and bottom line growth. I'm extremely confident in our decision to bring Stephan in to join the team. As I said before and we'll say again, we believe this is a game changer and will move the needle.

And before I hand it over to Alex, I want to express my commitment to all our stakeholders. I'm more committed than ever to staying through this turnaround and ensuring a proper succession plan is in place. And with that, I'll turn it over to Alex, and we'll come back for closing remarks following the Q&A.

Alexander R. Amezcua^ Thank you, Michael. I'll begin my section with the key financial highlights for the quarter. First, second quarter net sales of \$1.3 billion were down 5.7% compared to the same quarter last year. This marks our second consecutive quarter of improved year-over-year reported net sales trends. Second, Q2 gross profit margin of 77% was a sequential improvement from the first quarter. The pricing actions taken over the past year have led to an approximate 300 basis point benefit to gross margin. The impacts of input cost inflation and FX continue to be a headwind to gross profit margin with approximately 180 basis points and approximately 90 basis points of headwind, respectively, compared to the second quarter of last year.

Third, Q2 adjusted EBITDA was \$170 million, achieving margin at 12.9%, which was a 260 basis point improvement from Q1 of 2023. Fourth, adjusted diluted EPS of \$0.74 was negatively impacted by a \$0.12 currency headwind and \$0.06 6-month true-up for an upward

revision of our full year tax rate. Fifth, as reflected in our results, the strengthening of the U.S. dollar versus foreign currencies has had a negative impact on our reported sales and profitability. Assuming rates stay relatively constant, we expect a modest FX tailwind in the fourth quarter of 2023. And six, we continue to make significant progress with our previously announced transformation program. The results of our actions to date have exceeded our initial expectations.

Based on what we have implemented through June, we now expect to deliver an incremental \$20 million of annual cost savings, bringing our total expected program run rate savings to at least \$90 million, with more than \$45 million of these savings now expected to be realized in 2023, up from the approximately \$35 million that we communicated to you in the first quarter.

During the second quarter, we recognized an incremental \$10 million of pretax expenses in SG&A related to the program, primarily for employee retention and separation costs, bringing our total program to date cost to \$62 million. These expenses are excluded from our adjusted results. As a result of the incremental actions we have taken, we now expect to incur total program pretax expenses of at least \$75 million, up from our previous estimate of at least \$60 million.

Reported net sales for the second quarter declined 5.7% year-over-year, which was negatively impacted by a currency headwind of approximately 150 basis points. This is the second quarter in a row that we have improved our year-over-year reported net sales trends despite the difficult year-over-year comparison in the current quarter due to the pull ahead of sales in the second quarter of '22 as a result of the 10% price increase implemented in most of our geographic markets across all product lines in June of 2022. Based on this trend in others, all internal indicators point to our return to top line growth in the fourth quarter of this year.

Adjusted EBITDA for the second quarter was \$170 million with 12.9% margin, which was primarily impacted by higher input costs and negative FX impacts. We posted net income for the quarter of \$60 million with an effective income tax rate of 29.5%. Second quarter diluted earnings per share was \$0.60, with adjusted diluted EPS of \$0.74. Reported diluted EPS was impacted by net charges of \$0.14 related to both the transformation program and expenses related to our new digital technology platform, Herbalife One. Adjusted diluted EPS was negatively impacted by year-over-year currency headwind of approximately \$0.12.

Operating cash flows for the second quarter were approximately \$136 million with cash on hand, up \$72 million from the first quarter to \$527 million at the end of the second quarter. Second quarter operating cash flows were driven by higher profitability, along with our commitment to execute on initiatives to optimize our working capital, which drove an approximate \$46 million favorable impact in the quarter.

Moving to Slide 8. We see the drivers of our year-over-year change in net sales. Pricing provided a 10.9% benefit in the period as a result of price increases implemented over the past 12 months, including the 10% increase across most markets implemented in June of 2022 that I just noted, partially offset by approximately 250 basis points of unfavorable country mix and other driven by higher sales in India and lower sales in the U.S. and China relative to the overall net sales portfolio. Local currency net sales for the second quarter were down 4.2% compared to the prior year with FX headwinds during the quarter of approximately 150 basis points.

Moving to the adjusted EBITDA margin bridge. Adjusted EBITDA of \$170 million resulted in a margin of 12.9%, 110 basis points below the second quarter of 2022. Adjusted EBITDA margin benefited by approximately 360 basis points due to our price increases over the past year, including the 10% implemented in June of '22. However, elevated raw material costs and manufacturing overhead costs continue to impact our results, which drove an adjusted EBITDA margin headwind of approximately 180 basis points versus the second quarter of last year.

The impact of inventory write-downs was relatively flat year-over-year with country mix and other cost of goods sold, contributing an approximate 50 basis point headwind. Within SG&A, promotional spend contributed an approximately 40 basis point headwind year-over-year, largely due to the return of in-person events, including our 4 large extravaganza distributor trainings held during the quarter across 3 different regions. As we've stated, we believe these events are bringing renewed energy to attending distributors, which will, in turn, result in trends continuing to improve this year. Also within SG&A, we benefited from an approximately 10 basis point improvement in salaries and bonus as we begin to realize cost savings related to our transformation program partially offset by increased bonus accruals in the current period.

Currency was an approximate \$17 million headwind on adjusted EBITDA during the quarter, resulting in approximately 110 basis point negative impact on adjusted EBITDA margin.

Turning to Slide 10. We are encouraged that our average active sales leaders remains relatively stable versus the first quarter of 2023. For the second quarter, we had approximately 459,000 average active sales leaders, which was relatively flat versus first quarter of 2023 and 11% above the second quarter of 2019. As a reminder, this metric shows the monthly average number of sales leaders that have activity from either their own purchases or those of their preferred customers or nonsales leaders downline.

Moving to Slide 11. We are introducing a metric that we believe will be useful to better understand the underlying trends in the business. Within the chart, we can see the trend in the number of unique preferred customers and non-sales leaders that have purchased product during each respective quarter for the past 4.5 years. We believe this metric is useful as it provides insight into the number of individuals that are actively engaged and primarily behave as customers within the business in any given period.

As you can see, we have continued our upward trend of active preferred customers and non-sales leaders from approximately \$1.5 million in the fourth quarter of 2022 to \$1.7 million in the second quarter of 2023, whereas in 2022, our actives declined from the first to second quarter. We believe this is evidence that distributors are reengaging with their organizations and customers in their communities. We recognize our world is evolving, and our business needs to modernize with it. Based on the age demographics of our average active sales leaders, along with active preferred customers and nonsales leaders, we see that about 50% of the individuals are millennials and Gen Z, which is an indication that our business and products are continuing to evolve and resonate with the younger generations. The strategic initiatives we are implementing better position us to connect with this important demographic.

Moving to our regional results. The EMEA region was relatively flat year-over-year on a reported basis and up 2% on a local currency basis. In Latin America, reported net sales were favorably impacted by FX, primarily the Mexican peso whereas net sales in local currency were down 4%. Mexico reported net sales grew 12% compared to the prior year, while down 1% in local currency, partially offsetting year-over-year declines in Chile, Colombia and Brazil. The

Asia Pacific region saw a slight decline in local currency net sales with reported net sales down 6% due to unfavorable fluctuations in FX. India continues to lead the region posting another quarter of year-over-year growth with reported net sales up 16% and up 23% in local currency.

In North America, the decline in reported net sales was primarily driven by the U.S. market's 11% year-over-year decline. This is a key market for us, and we are laser-focused on stimulating engagement and productivity with the launch of several new initiatives in the market such as healthy active lifestyle activities. These are distributed on events that combine the use of Herbalife products with a fitness element such as group fitness class or a 5K run.

In China, the year-over-year net sales trends have improved for 2 quarters in a row, both on a reported basis and in local currency. For the quarter, net sales in local currency were down 10%, with reported net sales down 15%.

Turning to our capital structure and cash position. During the quarter, we increased our cash on hand by \$72 million to \$527 million, and our \$330 million revolving credit facility remains fully undrawn and available for borrowings. We ended the quarter with a 3.7x gross leverage ratio, and we were fully compliant with all debt covenants. Effective July 1, our benchmark rate for the senior credit facility is set to SOFR and LIBOR is no longer referenced.

CapEx for the 6 months ended June 30 was \$69 million, including our investments in Herbalife One. We expect total CapEx for the year to come in around \$150 million to \$200 million, inclusive of Herbalife One and expect CapEx to remain elevated through 2025. Our capital allocation and long-term use of cash priorities remain unchanged. As always, our #1 priority is to service our debt as we work towards investment-grade metrics and our targeted gross debt leverage ratio of 3.0x. We plan to use free cash flow generated in 2023 to continue to reduce our nominal debt levels.

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

+++ q-and-a

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

Chasen Louis Bender^ I just wanted to start on the volumes and the members, trends look good across most of your markets on a sequential basis. And not to nitpick too much, but in North America and LatAm, it looked a little bit softer relative to the rest of your geos. Can you just kind of unpack that performance for us and kind of frame whether that was in the reference of expectations you guys had or how that came out?

Alexander R. Amezcuita^ Chasen, yes, thanks for that question. So if you look at the North America and similarly with the LatAm metrics, especially the distributor metrics, what we're seeing as a second quarter where you have stabilization off of the first quarter. And so we're encouraged to see that stabilization. When we were here 3 months ago, we were seeing a rate of change on those distributor metrics, and we knew that those metrics, even though that we're seeing lots of signs of energy and reengagement in the metrics themselves, we haven't seen that stabilization yet. So now posting a second quarter where you have similar trends, while we don't see it going necessarily as up as we would like at this point, we at least see the stabilization. And so for those particular markets, as you couple it where you're seeing rates of

increase in the overall company from other markets, that's what's given us this confidence of growth in the future, stabilization in the market that weren't necessarily so, the ones you've mentioned, coupled with return to growth metrics in our other markets.

Chasen Louis Bender^ Got you. And then could you just give us your latest thoughts on price increases on a global basis? Are you still thinking it's kind of CPI, CPI minus, is that kind of the right level? And are there kind of any places where you're thinking about maybe holding back more than others?

Alexander R. Amezcuita^ Yes. I mean there are definitely different markets at different levels of price sensitivity. I would say, generally, the world is at saturation for price increases. We monitor this incredibly closely. So I would say a general policy for price increases as we go into the future, CPI at this point seems to be the ceiling. There may be other markets -- there may be some markets where even that ceiling might be a bit aggressive at this point. But we'll -- we certainly don't see any sort of CPI plus pricing strategies in the near term. It's certainly going to be at a CPI or maybe even a more sensitive for certain markets in the world.

Chasen Louis Bender^ Got you. And then just to sneak one more in. I know you did a lot of the heavy lifting last December with the convert offering. But in terms of the remaining \$260 million portion of that '24 converts, it sounds like the plan is still to tackle those with free cash flow. But maybe just give us an update on those specifically. And then if you started to think about how you're going to plan for the 2025 senior notes?

Alexander R. Amezcuita^ Yes. Good questions. So for the converts due in 2024, we continue to park cash. You'll see our cash balance increased this quarter over last quarter. So we'll continue to park cash and the cash flow that we generate between now and then, we'll use that excess cash to pay that down when it comes due. We haven't begun to address our 2025 yet. It's obviously in our strategic plan overall, but there aren't any specific moves that we've begun to implement to address the 2025 stack, but that is obviously something very front and center as we think about our overall capital structure.

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

Jeffrey Wallin Van Sinderen^ It's great to hear you guys so fired up about the future. I realize there are a lot of inputs, but all things considered, what is the outlook do you think for gross margin in the second half?

Alexander R. Amezcuita^ Yes. So we landed this quarter at 77.0%, and as we said last quarter, we knew we were going to improve off of where we were last quarter, which was at 76.2%. Largely, that was a product of just where FX rates were and some modest improvements in some other parts of just the overall gross margin structure. At this point where input cost inflation is, where transportation costs are, where wages are, where our ability to take price, et cetera, all those types of inputs. For the rest of this year, we're largely going to be in that 77.0%, maybe there's an opportunity for a little bit of margin expansion, depending on where currency rates sort of shift for the rest of the year. But the longer-term opportunity where we see that expansion at this point of the year given that we're halfway through, will largely start to be in 2024.

There are still opportunities in all of those categories. We are starting to see spot rates for some of our input costs continue to come down. There will be a little bit of a lag between when we

can catch up to those market rates where we have some short-term contracts catch up to market rates and other things like our manufacturing variances and overhead can start to improve as we start to see our forecast stabilize and in fact, grow. And to the extent that we can start running our manufacturing facilities a bit more productive than they are currently, we'll start to see that flow through our gross profit margin. But those are all opportunities that we see as a 2024 opportunity. And the rest of 2023, as your question asked, probably hovering in this 77%, maybe a bit of expansion, but I wouldn't expect something materially more than maybe 0.5 point.

Jeffrey Wallin Van Sinderen^ Okay. Fair enough. And then I just wanted to touch on, if we could, the launch of the new vegan line. Has that been launched everywhere in the world? Or how -- I guess, what's the status of that as far as where it's been launched and how you're evolving it, I guess, maybe for different markets? And then I guess your overall expectations around the new vegan line.

Michael O. Johnson^ So this is Michael. And the vegan line is called V here in the United States. It's a packaged line of 5 products, just launched last weekend, just as a refresher on that. It's received an incredibly warm reception. We are not going to give you the numbers on that right now, but it's very, very positive. In Europe, in Middle East and parts, and I think we have an Indian vegan line too. In Europe, we have -- I'm just getting reference from Frank here, who knows the thinks better than I do -- we have vegan line already there. We don't have it packaged as slickly as we do here. And I think that's going to be a process that we're going to look at is the repackaging, the branding of that product line to turn it into a little wider group of products. It is third-party certified in the U.S. It's organic. It's natural. We've got an incredible product line here that we're just super proud of. And on top of that, which is really important for those of you who consume green drinks before, I suggest you try that one because it tastes great, all the whole line does, which is unusual for vegan products.

Jeffrey Wallin Van Sinderen^ Yes, it sounds like that will be the first -- that would probably be the first green vegan drink that I've ever tasted that taste good, it taste good.

Michael O. Johnson^ I couldn't agree with you more. I've tried a lot of them and they haven't lasted along. So this is a really good tasting product.

Jeffrey Wallin Van Sinderen^ Terrific. I think all your products really are aimed toward good taste and that's a real positive selling point. I understand you guys are testing in Singapore in Q3, but what are the other milestones we should be looking for as you ramp the Herbalife One platform?

Alexander R. Amezcuita^ Yes. So the Herbalife One platform, and that's the -- that is the first big milestone is the beta launch in Singapore on the platform. And again, it's sort of customer distributor-facing expression will just be the website. But really what it starts to validate is all of the underlying architecture that needed to be put in place, that will support other applications that come due in 2024 and in the future. So that first beta test is, there's a lot under the hood that is running and being proven as well as just the sort of the visual brand representation and the website that distributors will begin to test. So that's a big monumental step for us. Later in the year, in 2 markets, U.K. and Spain, we'll also have distributor e-commerce capability rolling out in those markets as well. And again, that will be another fairly monumental step as we roll that capability out as well.

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

John Joseph Baumgartner^ Maybe first off, Michael. I wanted to ask about where the company stands right now in terms of Herbalife One, just sort of converting on the related revenue opportunities, the cross-selling, the retention benefits, just sort of the capabilities associated with the first-party data. How are you thinking about the timing until we see those benefits begin to ramp? And what are sort of the interim steps until it sort of kicks in?

Michael O. Johnson^ Okay. So I want to make sure I understand your question and the context of it. You say, Herbalife One in relation to recruiting, retailing, retention? Or is that what you're talking about? I'm not -- I was -- I didn't follow the question perfectly.

John Joseph Baumgartner^ Well, I guess sort of just applying the first-party data you've been accumulating over the past sort of 5 or 6 years with -- since the settlement in thinking about Herbalife One, sort of I guess, integrating different apps and sort of streamlining all the data if it kind of jump starts that initiative going forward.

Michael O. Johnson^ Yes. I'm going to start the answer, and I'm going to let either Alex or Frank jump in if they want. But -- so the data management out of that and the data opportunity is gigantic. We're working very closely with our distributors on upselling and working with customer profiles to make sure that we understand whose ordered from us, when, what their profile is, very much the way Amazon would upsell to you. But we're working very closely with our distributor base to integrate that to make sure we're not interrupting anything they're doing, but we're enhancing what they're doing in the marketplace.

But data management as far as nutrition clubs and point-of-sale and how we're working with those distributors to maximize, there's going to be a more profound availability to them of their own data as time progresses so that they'll be able to maximize the efficiency of their operation, whether it's in a club, whether it is in a personal social media online selling. However, it is going to work in their business. And frankly, and I'm going to plug for Stephan Gratziani, one of the big points that he's going to bring in and advantages to us is a maximization of understanding how to format that data into a distributor's life, so we advantage their business forum.

Alexander R. Amezcua^ Yes. I'll add. So the only thing that I'll add on to that is, John, it's a great question. And I think when we talk about data, data means a lot of different things in the overall ecosystem. There's a lot of things that we can do with data today that we don't need Herbalife One as a prerequisite. And so -- but there are a lot of things that will come additional ways to receive data and additional ways to express ideas that we have about data, for example, a win-back campaign, something as simple as that, that we'll be able to do on the new platform that's very cumbersome for us to do today. So there are a lot of different ways that we'll be able to either leverage data then or receive new data to help us with new strategies, but that's sort of just 1 silo of the overall data picture. There's other ways that we're using data.

Again, I think you were referencing since you're saying that we've had data for 5 or 6 years, a lot of the data that were -- the receipt of data that we use -- that we get today from customers in the U.S. and from the preferred customer program in other places, we're leveraging that data today. It may not be as efficient as Herbalife One comes along, but it's still being optimized and leverage today and how we go to market.

John Joseph Baumgartner^ Okay. And then Alex, sticking with North America and looking at the volume softness there, you mentioned the signs of the stabilization on the distributor front. But looking at the year-on-year volume erosion from Q1 to Q2, do you have a sense as to how much of that was from more pronounced elasticity as opposed to anything on sort of the mechanical side with distributor productivity. How do you think about the balance of those headwinds, elasticity relative to productivity for the back half of the year?

Alexander R. Amezcuita^ Yes, it's a great question, and it's a question that we have asked ourselves over and over. There is certainly some impact of demand elasticity in those numbers. That's in the data, how to apportion that between productivity, the overall marketplace changes versus the strict e-comm 101 demand elasticity is very difficult to determine. With all that said - with all that said, the answer is the same. The answer is the same in that this market is sort of in an innovation phase, if you will, to understand how to go to market more effectively in today's environment. And that's things around the value proposition. And you're starting to see that today where there is a significant movement in North America where they're moving -- concept that we've had in our company for some time, healthy active lifestyle, but the way that they're using healthy active lifestyle they're doing in this, we do body transformation program, which is a new way to go to market.

And you're seeing that come -- come out in a -- effectively when a distributor goes to market, they call it a flow. And you're seeing that in new flows, innovative flows and how to leverage that old concept in today's marketplace to really demonstrate the value proposition.

And I think in today's market where you have, particularly in the U.S. where you have over the past year and changed 20% price increases. The importance of value proposition is key to attracting customers rather than just leveraging brand or whatever was your selling points in the past, you really need to understand how to communicate with the marketplace today and in the future on a value proposition basis. And we're seeing the market kind of do that in their own way.

John Joseph Baumgartner^ And then just one more for me, if I could. I wanted to come back to the vegan line, the V. On one hand, it's very much on trend in the space. But then at the same time, there's some risk, I guess, of some cannibalization. And I'm curious, in terms of the feedback from your distributors in this development process, has the view been that the lack of sort of a broad-based plant line has been a limiting factor in new consumer uptake for the company? I'm just curious how you're thinking about cannibalization relative to incrementality on the net for that V line?

Michael O. Johnson^ I think that -- this is Michael. I think that what we're doing with the V line is going to expand our business in ways. It is a low-risk group that we're talking about here. They're not going to trade out one product or another. There's been a group clamoring for a vegan line in this company for years. I've spoken to a ton of distributors since I've been back. They now can open doors that they haven't been able to open before. They have an offering inside their clubs with a choice and a range that they haven't had before. And they have an opportunity now to go out into the marketplace with a product line that not everybody is a vegan, we know that, but a lot of people, and myself included, are part-time vegans.

I take a couple of products. I'm kind of a vegan Monday through Friday, now I eat fish on the weekend, flexitarian, they call me. And that is an opportunity that we've been missing in the range of products that we have. And this one to me, and I -- we always get excited about these

launches, and distributors always get very high about it. But what we're seeing on social media and what we're seeing in terms of the uptake on this product and the acceptance of it is wider, just about with any product launch I've seen maybe on Herbalife24 product, it is all over the place.

Our distributors are super excited about it. And I don't want to sound like a salesman here, [buying or] salesman. Coming back to -- the product tastes great, and that's going to create a huge advantage for us in the marketplace.

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

William Michael Reuter^ I just have two. Out of the total that you expect to spend on Herbalife One, how much have you spent thus far? And you mentioned that CapEx will be elevated through 2025. Should we kind of just assume it will be in the same range as you expect this year, like \$150 million to \$200 million?

Alexander R. Amezcuita^ William, yes, I'll take that. Yes. So the overall program expense hasn't materially changed. There is probably a little bit of shifting of dollars from 2023 into 2024. We're still ranging between \$150 million and \$200 million of CapEx spend this year. A lot of that will just be dependent on how the beta test goes in Singapore and just sort of how things roll out. So there's just some, what I would call, timing differences of when it hits. But overall, as a program, no different. And I think we're just trying to provide some clarity that we're going to be at an elevated CapEx spend through 2025. I think we've been communicating that, but we just wanted to be more clear about that in case anyone missed that. So there's really not any -- I would say there's not really any material changes to the program, to the amount of spend, maybe just slight timing differences as the end of this year is coming up on us, and we could see that some of it might get pushed into 2024.

William Michael Reuter^ Okay. And then just my second question. Clearly, inflation has been seen across everything. You guys pushed through the relatively large price increase last July. How much feedback or -- you mentioned maybe pricing for CPI. Are you getting feedback from your distributors that they'd like you to reduce price? And do you think that's something you'll consider, I don't know, to try and increase our engagement?

Alexander R. Amezcuita^ Well, I wouldn't say that there is price reduction on a broad basis. Now we have been -- there was a select price decrease that we did on our Herbalife24 line in the U.S. market, and that was really more from a competitive landscape perspective than it was about thinking about overall demand elasticity. I just wanted to make sure that product line, which is an awesome product and of itself, we just wanted to make sure that distributors had a chance to be competitive in the marketplace with it.

Broadly speaking, well, I mentioned a moment ago, most markets are at saturation. I don't think we're at a point where we would consider rolling back any of the price increases that we've taken to date. At this point, I think it's just being very mindful and measured about how we go forward with them.

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

Hale Holden^ I had 2 questions. First one, Alex, on the expectation (inaudible) both in the fourth quarter. Does that part you back to year-over-year growth in America? Or do you think that may take longer than the first quarter?

Alexander R. Amezcuita^ Yes. I know we normally -- we get these regional forecast questions. So I'm just going to defer to our standard answer. We don't really forecast on a regional basis. So I don't want to comment on what is included in that comment that we get to total company growth. But all signs are, as I indicated earlier, if these trends continue and there's still work to do to get there. We still need to continue to have these trends improve as we go through the third quarter and obviously into the fourth quarter. But at our current rate of change, if the change continues, we will, as a company, see net sales growth in the fourth quarter.

Hale Holden^ And then Michael, it's [completed] here in the East Coast, (inaudible) me a bit, but do you guys think about evaluating GLP-1s. Just wanted to touch based on if whatever avenue you chose to go through there, you could (technical difficulty) or a cash flow-neutral way so they didn't detract from all [activities happened] to you guys in 2024?

Michael O. Johnson^ Well, you were cutting in and out there. So can we try that just 1 more time? I heard the GLP-1 on distraction, but...

Hale Holden^ Yes. So the question was if you guys decide in your evaluation of GLP-1s, is it possible for you to kind of explore that market into 2024 in a way that's either margin neutral or cash flow neutral? So (technical difficulty) some of the margin uplift such you should see '24 absent that.

Michael O. Johnson^ I think that, that's really the only way we would go into it. We're exploring all sorts of alternatives. There's different companies, telehealth companies out there that have interesting prospects. Some have announced recently with obviously, Optiva and Medifast, we're very close to it. Let's just put it that way. I don't want to give any promise or any great hope, but I also want you not to think that we're not studying this very, very carefully and looking at it and trying to make sure that it fits into not only our business opportunity, but our culture inside the company to make sure that we're doing something because all of these -- whether it's [Wegab or Luzern] or Ozempic, no matter what it is, you've got to have foundational lifestyle changes to go along with us. No drug will be effective without those lifestyle changes.

And we offer a product that's complementary to those because there's going to be a protein loss, there could be muscle loss with these or side effects that are still coming to light with these products. But that's not to say that we can't fit that into our program and offering somehow somehow. And we're studying it very carefully. Let's just put it that way.

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

Jonathan Daniel Keypour^ This is Jon Keypour on the line for Anna. I just had a question about state of the consumer by region. If you guys could go into a little bit of detail by reporting segment and sort of give us a picture of how the different macro factors are playing out there at the consumer level, please?

Michael O. Johnson^ Yes. So instead of going like region by region, I'll say that the way that I look at it, you have China in 1 category. China is a fairly isolated market and has sort of their

own dynamic. Now obviously, that market is coming out of COVID. The first quarter was challenging with much of the population actually contracting COVID, and now they came out of that. You saw retail spending significantly up in May and sort of moderated in June. So you have an overall market that is getting back to normal. And I think if you looked at our second quarter results, you'll see our second quarter improving over our first quarter. If you just look at it nominally quarter-over-quarter, with a first quarter that's improving over fourth quarter of 2022. So generally speaking, that market and the consumer preferences you're seeing the trends that you would expect and we're really excited to see that market finally get back on its feet again after really a challenging run that it's had over the past few years.

If you then move -- I would kind of put the U.S. and Western Europe, actually probably the U.S. in sort of a different place. The U.S. is really experiencing a significant challenge coming out of the pandemic and relearning how to go to the marketplace. A lot of my comments earlier on the call, I think I really addressed the North America market. In Europe, it's a little bit of a different story. Europe has a little bit more of diversity in the way distributors go to market. And so that diversity has allowed them to get on their feet a little bit faster than in other markets. And so if you see the year-over-year trends from the first quarter to where they are in the second quarter, you'll see significant improvement where in North America, it was more of a stabilization quarter.

I'd say some of the trends that you see in North America are also consistent with what you're seeing in Latin America. And I think generally, Asia Pacific, you have a mixture of again, India is included in the broader APAC market. You have India showing tremendous growth, once again, constant currency, 20-plus-percent growth in that market. And in other markets, particularly in Southeast Asia and Indonesia, really suffering a little bit of a lag in sort of the behavior that we saw in the U.S. and Western Europe, call it, mid- to third quarter last year where the pandemic conditions or I should say, the post-pandemic conditions, are in a bit of a lag or at least what we're seeing in the behavior there.

So while Southeast Asia is going through that lag that we saw in some Western markets last year, we're seeing that happen this year. So we're just sort of -- we know how to respond to that. Again, almost -- the answer is almost ubiquitously distributor engagement, training and getting back to really grassroots efforts and how you go to market. That will all be different in each region, but the general -- those general themes apply to address sort of the consumer preference changes that we're seeing around the world.

Operator^ Our next question comes from the line of Karru Martinson with Jefferies.

Karru Martinson^ When you look at the return to growth in the fourth quarter, is it that the active sales leaders and distributors need to grow kind of from the stable base that we have now or is it the productivity of those distributors need to improve?

Alexander R. Amezcua^ I mean it's both. Obviously, I think the bigger lever right now will be productivity in that -- that will probably be the metric that you'll see improve more so. But all of our metrics will continue to improve as a company as we move through the quarter into the fourth.

Karru Martinson^ Okay. And then just from a housekeeping perspective. When I look at a year ago gross margin at about 78% in the model for the third quarter, I was just trying to square that with kind of the 77% target range that we're talking about earlier. Is there something in the year

ago that we should be aware of when we're kind of modeling out for the rest of this year for the third quarter?

Alexander R. Amezcuita^ I mean the biggest movement, so really -- and I don't know how to model this out. I don't know how to prescribe for you how to model out. But the biggest movers at this point, will really be actually the comparisons of how currency moves last year versus this year. And so generally speaking, you had a very strength -- a significant strengthening of the U.S. dollar in the third quarter. So I'll just point you to those trends and how you might want to model it out, but there's -- I would say there's nothing fundamentally in the business side of it that from a comparison perspective that I would call out.

Karru Martinson^ Okay. So still in that 77% to maybe, as you said, up 0.5 point kind of how we should think about the rest of the year.

Alexander R. Amezcuita^ Yes. And again, the big volatility in that number at this point will be really how FX moves.

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

Michael O. Johnson^ Thanks, everybody, for being on the call. We appreciate you being here with us, our faith in us, and we're going to make that faith in us be rewarded. So my passion for this company, and I think you know it, and the reason I'm here, it's stronger than ever. We're making progress, and we're excited about that. We have a lot of work to do. And this team -- I've never seen this team as fully engaged and committed to our return to growth as I see it today.

The energy with our distributors will catapult us into the next phase. Herbalife One, hey, it's on track. Our distributor mends of operations are evolving. You heard mentioned the, we do, transformation. There are so many of these going around the world right now, and sharing ideas and increasing distributor activity is the name of the game. People are coming back. They've got more energy than I've ever seen. We know the marketplace or work for us as we get back to work and we're getting there. And I'm excited about it because we're on the right path to the right momentum.

Bringing Stephan into this company, Stephan Gratziani joined the team as another way for us to innovate, it's another way for us to get closer to the marketplace and to provide an opportunity for both our distributors and our employees to be even more proud and see this company move forward.

Our team is great. We're on a great path to success. We've got our eye on the ball, and we're totally committed to our goal of helping people live their best flights. So thank you to all of you. It wouldn't be me if I didn't say this is a close, let's go Herbalife. Thank you.

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