

Eric Monroe ([00:15:58](#)):

Good morning. My name is Eric Monroe and I'm the senior director of Investor Relations at Herbalife Nutrition. It's my pleasure to welcome you to Herbalife Nutrition 2021 Virtual Investor Day. Today, we will show you why we believe Herbalife Nutrition is an attractive investment opportunity and share the strategies that give us confidence in our future growth. You'll hear from our CEO, John Agwunobi, our president, John DeSimone, and our CFO, Alex Amezcuita. Additionally, we will go in depth on one of our growth strategies, digital transformation, with a fireside chat hosted by Jeffries research analyst and managing director, Steph Wissink. The discussion will feature several of our corporate leaders, who are driving these strategies.

Eric Monroe ([00:16:46](#)):

And I would like to introduce Humbi Calleja, vice president, North America sales, events and promotions, who will discuss our growth strategy around millennials and Gen Z. You will also get an exclusive look at several distributors and how they operate. They will take you inside their businesses and share the entrepreneurial and creative ways they are making a difference in peoples' lives. And finally, we will close with a Q&A discussion when John Agwunobi, John DeSimone, and Alex Amezcuita. You can submit a question at any time throughout today's presentation by using the chat box on your screen. During this presentation, we will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Eric Monroe ([00:17:32](#)):

These forward-looking statements are subject to risks and uncertainties that can cause future results or events to differ materially from those indicated or implied by such statements. Please refer to the slides that we will be reviewing during today's presentation and our filings with the Securities and Exchange Commission for a more detailed discussion of the risks, and uncertainties, and the limits applicable to forward-looking statements. The company does not undertake any duty to update such forward-looking statements. These slides are also posted on our website at ir.herbalife.com. Herbalife Nutrition routinely posts information that maybe important to investors on this website. We use this website as a means of disclosing material information to the public in a broad, non-exclusionary manner for the purposes of SEC's Regulation Fair Discloser, Reg FD.

Eric Monroe ([00:18:24](#)):

Finally, during our presentation, we will be referring to certain non-GAAP financial measures, including adjusted net income and adjusted EBITDA. We will refer to these measures as adjusted and present them to supplement your understanding and assessment of financial performance, as calculated in accordance with GAAP. Non-GAAP financial measures should not be considered as a substitute or superior to financial measures calculated in accordance with GAAP. Now, I'd like to ask Alex Amezcuita to join me for a quick update before we get started.

Alex Amezcuita ([00:18:57](#)):

As you saw in our recent press release, we announced revisions to our third quarter and full year 2021 guidance. After four straight quarters of year-over-year, double digit net sales growth, we recently observed lower than expected net sales. Our prior guidance anticipated a challenging year-over-year comparison for the third quarter. However, the level of new preferred customers and new distributors joining the business was lower than expected across multiple geographies. With that said, demand for our products remain strong. The number of new preferred customers and new distributors joining the

business is up approximately 30% for the months of July and August, compared to the same two months in 2019.

Alex Amezcuita ([00:19:41](#)):

Perhaps more importantly, the foundation of our business remains strong. One of the key statistics that is an indicator of this foundation, and the health, and future growth of the business, is the number of sales leaders actively selling in the channel. And this metric is up 10% for the months of July and August, compared to 2020. Our full year revised guidance has a 400 basis points reduction to net sales, which results in year-over-year growth of 4 1/2% to 8 1/2%. This represents approximately 19 to 23% net sales growth versus 2019. With a prudent focus on profitability, the reductions in our top line have been partially offset by expense management. Our full year adjusted EBITDA guidance has been reduced approximately \$20 million, to a range of \$860 million, to \$910 million.

Alex Amezcuita ([00:20:36](#)):

And our full year adjusted EPS guidance has been reduced 15 cents to the full, compared to the prior year 2021 guidance. Full year adjusted EPS represents growth of approximately 28% versus full year 2020 at the mid-point. Regarding capital allocation, we remain on track to complete \$200 million in share repurchases during the back half of 2021. We are happy to address any questions you may have in our Q&A session at the end of our presentation today. The global pandemic has brought unique challenges and forecasting our quarter to quarter guidance. However, nothing changes about the strength and demand we have seen across our nutrition portfolio and the long-term opportunity in our business.

Alex Amezcuita ([00:21:24](#)):

Today, we will focus on these strategic opportunities and the long-term value we see in Herbalife Nutrition.

Eric Monroe ([00:21:33](#)):

Thank you, Alex. Before we turn it over to John Agwunobi, let's start with a brief overview of Herbalife Nutrition for those of you who are newer to the business.

John Agwunobi ([00:22:50](#)):

Thank you, Eric, and welcome again, everyone. Today, our primary goal is to share with you the reasons for our confidence in our business and its long-term growth potential. As this is my first Investor Day as CEO, I want to share a little bit about my background and why I am such a believer in the Herbalife Nutrition promise. Healthcare is in my DNA. Both my grandfather and my dad were physicians, and my mother was a nurse. Although I never doubted that my career would include me becoming a doctor, I always knew that I wanted to do more. My first position was as a pediatrician in Washington, DC. I did my residency in an inner city hospital during the waning days of the major urban drug epidemic of the early 1990s.

John Agwunobi ([00:23:54](#)):

Subsequently, I enrolled in graduate school to study public health, where I learned about the importance of prevention and the power of nutrition. My career continued in the public sector, where I served as Florida's Secretary of Health and later, as an admiral in the US Public Health Services

Commission Corp, and as an assistant secretary of health for the US Department of Health and Human Services. In that role, I was responsible for overseeing the FDA, the CDC, NIH, and all the other public health functions of the US federal government. In 2007, I transitioned back to the private sector, joining Walmart as the head of their health related US businesses, where I oversaw 4,000 pharmacies, their over-the-counter departments.

John Agwunobi ([00:24:50](#)):

Including their protein powder, their vitamin, and their supplement businesses, and around 300 health clinics that were in their stores. During this time, the business grew from 25 billion dollars to almost 30 billion dollars. I joined Herbalife Nutrition in 2016 as Chief Health and Nutrition Officer because I believed that the company was ideally positioned to have a significant impact on healthy nutrition around the world. I was compelled by the strategy that the company was deploying, and I was impressed with the quality of the leadership team. Over the next four years, I served on that leadership team in a number of escalating roles before eventually becoming CEO of the company.

John Agwunobi ([00:25:43](#)):

Looking back, I believe my diverse, personal career journey has really helped prepare me for my current role. I'm personally really excited about our vision to become the most trusted nutrition and lifestyle company in the world. This is a growth company. Major global trends are tailwinds in our business. There's demand for healthy nutrition and we have the expertise and the experience to deliver on that demand. We have more than 300 scientists and 50 PhDs leveraging cutting-edge technology, research and consumer insights to develop science based, high quality, nutrient dense products. Our distribution channel is a truly global network of entrepreneurs.

John Agwunobi ([00:26:40](#)):

It's been built up incrementally over 41 years and it's one of our core, competitive advantages. Distributor coaches provide individual, personalized service to their customers. They're knowledgeable about our products and they design tailor-made solutions for their clients. This approach creates a personal connection between the distributor and the customer, helping drive results. Today, we are seeing even greater interest in our business from younger demographics. In fact, approximately two-thirds of all new distributors and preferred customers, who joined Herbalife Nutrition in the second quarter of 2021 were either millennials or Gen Z.

John Agwunobi ([00:27:34](#)):

We operate in 95 markets and have significant geographic diversity all around the world, which is a strong asset for our business. Since the beginning, we've been on a mission to improve the nutritional habits around the world with great tasting, science backed nutrition products that help people get the right balance of healthy nutrition. Let's look at some statistics and trends. We participate in growing nutrition product categories: weight management, targeted nutrition, and sports nutrition. These three global categories represent an enormous market opportunity of over 150 billion dollars that addresses significant global trends. Our range of weight management products address the ongoing, global overweight and obesity epidemic.

John Agwunobi ([00:28:41](#)):

We are the global market leader in the 17.4 billion dollar weight management category, with almost 20% market share. And we have the number one meal replacement product in the world. According to Euromonitor, the weight management category is projected to grow at a five year compound.

PART 1 OF 5 ENDS [00:29:04]

John Agwunobi ([00:29:03](#)):

Weight management category is projected to grow at a five-year compound annual growth rate of approximately five percent. And we believe we can expand our market leadership.

John Agwunobi ([00:29:11](#)):

Targeted nutrition is a large and broad global category of over 115 billion dollars. It includes fish oils, fiber, as well as vitamins and supplements. It's projected to grow at a compound annual growth rate of over five percent for the next five years. We see an opportunity to not only launch new products in this space, but to also grow our market share.

John Agwunobi ([00:29:38](#)):

The sports nutrition category, which is functional nutrition that enhances sports performance, that category is currently valued at nearly 22 billion dollars. And Euromonitor projects that the sports nutrition category will grow at a compound annual growth rate of approximately eight percent over the next five years. We're still just building our beachhead in this category with less than one percent market share currently. But I believe we have an opportunity to grow our footprint globally.

John Agwunobi ([00:30:13](#)):

The Herbalife 24 sports nutrition line is used by professional athletes, including the LA Galaxy soccer team and Cristiano Ronaldo. In fact, our sports hydration drink CR7 was co-developed with Ronaldo. Additionally, we have sports nutrition relationships with five national Olympic committees, an eSports team in China, and with a number of top female athletes around the world, including Heather Jackson, soccer player Deyna Castellanos, and women's professional soccer team Atletico Madrid Femenino.

John Agwunobi ([00:30:57](#)):

Nutrition clubs, a cornerstone of our business and another competitive advantage that has proved difficult for others to replicate. Nutrition clubs are brick and mortar locations owned and operated by distributors and embedded in local communities. Instead of simply selling products for in-home use, they provide unique, individual, single serve product consumptions created and prepared by the club operator.

John Agwunobi ([00:31:33](#)):

Nutrition clubs provide community and support for their customers. They tailor their services to customers' needs and wants, for example, weight loss challenges, neighborhood walks for new moms, or a concept called Fit Clubs, which integrates nutrition and fitness workouts. Many of these clubs are in rural areas that may lack access to healthier food options.

John Agwunobi ([00:31:59](#)):

As of Q2 2021, our distributors operate at approximately 72,000 clubs worldwide, with over 11,000 in the US alone. For context, 72,000 clubs is more than twice the number of Starbucks stores worldwide as of 2020.

John Agwunobi ([00:32:22](#)):

We've seen nutrition club growth accelerate in more rural parts of the US, where we saw 15% increases over the last year. We believe this rural club model has great potential for other markets around the world.

John Agwunobi ([00:32:40](#)):

If you really want to learn about our business, we recommend that you visit a nutrition club. So today, we're going to do just that, well, virtually. Let's take a look at a nutrition club operated by two of our distributors Trey and Mimi.

Speaker 1 ([00:33:01](#)):

We're in, uh, Madison, Mississippi, suburb of Jackson. It's that really small town feel, you know, where everybody knows everybody.

Speaker 2 ([00:33:09](#)):

This has been home for the last 22 years.

Speaker 1 ([00:33:14](#)):

So when we originally started our nutrition club 11 years ago, what we offered customers was wellness profiles. We would help them design programs to lose weight. Once we figured out this new nutrition club model, we started thinking of ourselves as really Herbalife Nutrition, our market, our potential really grew. So our sales and our nutrition club went through the roof.

Speaker 1 ([00:33:38](#)):

Thank you.

Speaker 1 ([00:33:38](#)):

One of the biggest changes we've had over the years with our nutrition club is actually the products that we serve, because Herbalife products not only have the nutrition, but they, they taste good. And that's what people want.

Speaker 2 ([00:33:50](#)):

It's not that they want to be unhealthy or overweight or any of these things. Maybe they just don't know. But when they can come into a nutrition club and they can taste a delicious shake right there, they know immediately that this is something, "Hey, I like this. I can stick with it."

Speaker 1 ([00:34:05](#)):

They find the one that fits them and their personality, which then means they fall in love with Herbalife Nutrition.

Speaker 1 ([00:34:15](#)):

About three years ago, a light switch went on for us. We don't need to expand to these big communities. And so at that point, we grow from small town to small town. And now, that's spread from Mississippi to Louisiana to Alabama to Arkansas. And that happened because we figured out, "Hey, all of these little towns all around the country and all around the world want options."

Speaker 2 ([00:34:41](#)):

Linda Mason, she owns Square Nutrition in Canton. She took the initiative as a young single female to open in a small town in Mississippi. She has just done amazing and really been able to bring awareness to her community and start to build the next generation.

Speaker 1 ([00:35:00](#)):

We think the future is so bright with Herbalife. When you look at what's happened with us, starting from our nutrition club in Mississippi and now over a thousand nutrition clubs in that little area, and then when we think about the big picture, how many small towns are really around America, like, we're not even touching the surface. But then we start thinking about around the world.

Speaker 1 ([00:35:22](#)):

I really see in the next three or four or five years us really having this model growing all around the world.

John Agwunobi ([00:35:36](#)):

We expect continued adoption of nutrition clubs by distributors around the world in the coming months and years.

John Agwunobi ([00:35:46](#)):

Earlier this year, in describing our long-term business growth priorities, we provided a long-term financial algorithm for our business. Today, Alex will provide greater insight into the long-term growth algorithm.

John Agwunobi ([00:36:04](#)):

But in summary, our goal is to maximize shareholder value through these three value drivers: organic sales growth, operating income, and efficient return of capital. We believe we are well-positioned to achieve organic sales growth in the mid to high single digits. With operating leverage in SG&A as well as pricing power, we are positioned to grow operating income in the high single digits.

John Agwunobi ([00:36:43](#)):

Over the past 10 years, we've returned approximately 5.6 billion dollars in value to our shareholders, primarily through our share repurchase program, including more than 600 million dollars in just the first six months of 2021. And we announced in February of 2021 a three-year 1.5 billion dollar buy back authorization.

John Agwunobi ([00:37:13](#)):

You know, we've accomplished so much in the last 41 years. But we still feel like we are just getting started (laughs) and our future is so bright. Our vision is to become the most trusted nutrition and lifestyle company in the world.

John Agwunobi ([00:37:34](#)):

Healthy nutrition has never been in more demand. Our product categories and brands are more relevant than ever before. Advances in science are fueling innovation and demand for our products.

John Agwunobi ([00:37:49](#)):

Our direct selling distribution channel is continually evolving to adapt to the changing nutrition needs of consumers. And it's the foundation that we've been building on over the last 41 years that have supported unprecedented growth in our business.

John Agwunobi ([00:38:09](#)):

In recent years, this growth has been fueled both by digital tools and social media as well as innovation in the bricks and mortar nutrition clubs that are operated by our distributors around the world.

John Agwunobi ([00:38:24](#)):

And at the center of it all is our distributors, their entrepreneurial spirit, creativity, and engagement. It's what enables them to nourish the potential in everyone to create a healthier future.

John Agwunobi ([00:38:39](#)):

We are confident in the growth strategy that John DeSimone is about to walk you through. He will detail our strategic plans to, one, increase customer retention, two, enhance our brand, three, accelerate our digital transformation, and, four, drive product innovation and expand our product portfolio.

John Agwunobi ([00:39:03](#)):

Okay. Let's turn this over to John so he can take you into the details.

John DeSimone ([00:39:13](#)):

Thank you, John. As you just heard, there are many reasons why we believe Herbalife Nutrition is an attractive opportunity for investors. I'm energized by the work we do every day toward transforming lives, a commitment we carry out with the same enthusiasm and desire that has propelled this business over the years. We are now ready for our next chapter, a strategic focus designed to improve customer activity and customer retention.

John DeSimone ([00:39:40](#)):

I want to provide some context around that potential opportunity. And in order to do so, I will use data from the US, our largest country, where we capture almost all end user customer transaction. This information includes who buys which product, how often they purchase the product, the price they pay for the product, and where they made the purchase.

John DeSimone ([00:40:03](#)):

The tools and programs to capture this type of information will expand in different degrees around the globe, but it's the most robust in the US, where we had detailed information on more than 58.9 million customer transactions during the last four quarters. Over that time, the US represents 23.9% of global sales and 24.4% of total volume points. Also during the prior four quarters, the US generated approximately 3.4 million new customers.

John DeSimone ([00:40:36](#)):

While our distributors bring in millions of new customers every year, we believe there's a huge opportunity to drive top line growth by improving the activity and retention rates of these new customers. For example, 37% of our new customers order in the second month, and 39% order anytime between seven and 12 months after their first purchase. A modest improvement in these activity rates combined with improved customer retention rates offer a significant revenue opportunity for the future.

John DeSimone ([00:41:10](#)):

To illustrate the potential opportunity, a 200 basis point improvement in monthly activity rates, meaning if an additional two out of every 100 new customers ordered every month, over five years, that would lead to approximately 30% volume point growth for the company and for our distributors. A 400 basis point improvement would lead to approximately 69% volume point growth.

John DeSimone ([00:41:37](#)):

And a focus on improving activity and retention rates is not a new concept to Herbalife Nutrition. For the past nearly two decades, we've had strategic initiatives designed to improve distributor and sales leader activity and retention rates. Over that time, the retention rates improved globally from 27% to 67% with volume growing by more than four times over that period from 1.5 billion to almost seven billion volume points.

John DeSimone ([00:42:07](#)):

We are now taking those learnings and applying them to improving customer activity and retention rates. We have numerous strategies to drive improvements into this area. And today, I will briefly cover five strategies that we believe will help improve customer activity and retention. And they are digital transformation, new product innovation, brand, nutrition club expansion, and ESG.

John DeSimone ([00:42:35](#)):

I'll start with our digital transformation strategy, which for Herbalife Nutrition means providing distributors with knowledge, insights, and technology to help them grow their businesses and better connect with their customers. For this strategy to be most successful, technology needs to capture as much consumer transaction data as reasonably possible. Our progress in capturing this data across our markets is varied.

John DeSimone ([00:43:03](#)):

The US is the most developed because, as I previously mentioned, we capture virtually all customer transactions. Globally, we continue to capture more and more customer transactions with various customer-based initiatives, such as the Preferred customer program and customer loyalty programs.

John DeSimone ([00:43:23](#)):

Additionally, we are continuing to invest in our CRM platform powered by Salesforce in the US, as well as other investments in internally developed tools, such as our proprietary POS tool and our customer loyalty program.

John DeSimone ([00:43:38](#)):

Customer transaction data will help us understand goals, behaviors, and profiles of customers better. But if we can also understand customer product preferences, we can use artificial intelligence to do things like auto suggest to our distributors their next best actions as they build relationships with their customers. And we believe this engagement will lead to improved customer activity and retention.

John DeSimone ([00:44:03](#)):

While customer data is important, we also believe distributors and customer technology needs to be easy to use and also create scalability for our distributors. This is because the most valuable and least scalable asset our distributors have is their time. They can't create more of it. Our technology investments will be designed to make our distributors more efficient and more effective and, most importantly, to generate more sales and more value from the customers they are already serving.

John DeSimone ([00:44:34](#)):

Here's the bottom line. We've been investing in tools and technology to capture customer transactions for a while. But we're in the early stages of using data-driven capabilities to enable our distributors to cross-sell and upsell in an intelligent way driven by analytics and AI.

John DeSimone ([00:44:51](#)):

Our digital transformation is one of the most exciting investments we're making in this business, and I'm only skimming the surface. You will learn more about this key strategy during our fireside chat coming up shortly.

John DeSimone ([00:45:03](#)):

Let's move on to new product development, another key growth strategy. We've always had high quality products. However, in the last decade, our growth has been driven more so by distributors developing new sales methods, like nutrition clubs, than by new product development.

John DeSimone ([00:45:20](#)):

In the long term, however, new products will be one of the most important growth drivers and accelerating new product, product development will be critical. Currently, products introduced in the prior three years represent only 14.5% of volume points in 2020. Our strategic objective is to increase sales attributable to new product development within the last three years to 25% over the next five years by localizing product development and improving speed to market.

John DeSimone ([00:45:55](#)):

First, we will push more our new product development into our regions so we can be more attuned to customer needs, which we believe will help customer retention. And offering localized products are key, as we operate in 95 markets with many unique flavor profiles and ingredients preferences.

John DeSimone ([00:46:14](#)):

This also includes investing in new product development centers at a regional level to create products inspired by local cultures and local needs. Our first [inaudible 00:46:23] center already launched in China, and we plan to open similar development centers in APAC, Brazil, and AMEA.

John DeSimone ([00:46:31](#)):

Some examples of locally develop product include Ayurveda product line for India, in Europe and Africa, our Microbiotic Max product, in Brazil, the expansion of our Herbalife 24 Sports line.

John DeSimone ([00:46:44](#)):

And in addition to localizing new product development, we continue to invest in accelerating the development process to improve our speed to market. We have invested extensively in reducing the amount of time it takes to launch a product. In fact, new products utilizing this speed to market development process now take on average 22% less time versus the standard process. It's been reduced from 22 months to 17 months.

John DeSimone ([00:47:11](#)):

Local product development and improved speed to market have helped us develop products that we believe will resonate with different target audiences. For example, our protein chips that launched in Brazil and AMEA reflect increased demand for healthy snacking, particularly from a younger demographic. Now, to that point, we also expect to launch a vegan line next year, as well as other clean label options where we see growing demand for these choices.

John DeSimone ([00:47:37](#)):

And no matter the needs of our customers, it is most important that we offer product choices. For example, different markets can have a combination of our basic line, our clean label option, or our non-GMO options. We believe these initiatives will drive new products to meet or exceed our five-year goal of new products representing 25% of global annual sales.

John DeSimone ([00:48:03](#)):

Another facet to our growth and one of the most important is to continue to strengthen our brand and our continued credibility with distributors and their customers. We are building a framework that weaves our brand into our culture and business strategy and informs and inspires everyone to deliver on the brand experience. Our decades long legacy proves we are a brand that nourishes the potential in everyone to create a healthier future. This message stands the test of time as our business continually adapts to the world around us. And we are committed to building even greater consumer confidence, with the goal of being the most trusted nutrition and lifestyle company in the world.

John DeSimone ([00:48:46](#)):

To that point, we have partnered with a top global brand strategy agency to help define a new company purpose, vision, brand positioning, and creative expression that is forward-looking, martin, fresh, and one that reflects the unique value proposition that Herbalife Nutrition and our distributors bring to the world.

John DeSimone ([00:49:06](#)):

This work, which began in January 2020, will touch every aspect of our business. I would love to unveil more right now, but our plan is to introduce it comprehensively to our distributors at our large global distributor event in 2022, and thereafter to our customers and investors. We believe this critical investment in our brand will take us to the next level of growth while allowing us to remain grounded in our values.

John DeSimone ([00:49:35](#)):

Let's turn our attention to nutrition club expansion. Nutrition clubs have been a growing part of the Herbalife Nutrition business for almost 20 years. You've already heard about nutrition clubs from John Agwunobi and also from one of our top nutrition club operators.

John DeSimone ([00:49:51](#)):

But here are the key points to remember. Nutrition clubs are fixed, brick and mortar locations owned and operated by distributors. In most of these locations, customers visit the club and enjoy single servings of our product, which are made for them by distributors. This contrasts with the customer buying a canister of shake powder and making their own shake at home.

John DeSimone ([00:50:15](#)):

There are approximately 11,000 nutrition club locations in the US. And globally, there are approximately 72,000 locations. In the US, where we have most of the transaction data, single servings prepared at the club by distributors for their customers represent approximately 33% of sales in Q2 2021. However, distributors that operate clubs also sell products using other formats. US sales from distributors that operate clubs represent 57% of total country sales in Q2 2021.

John DeSimone ([00:50:47](#)):

Nutrition clubs are great for the Herbalife Nutrition brand, as they create a sense of community for our distributors and their customers centered around using our product. And as you can see by the numbers, it's an important part of the business, and we expect to continue to grow it globally.

John DeSimone ([00:51:04](#)):

We also understand that we have a larger global responsibility to improve our world. Our expertise in nutrition and providing economic in-, opportunities enables us to use our skills and knowledge to help even more people on an even greater scale. And this is why we are initially focusing our global responsibility or ESG efforts on aligning with the targets defined by the United Nations Sustainability Development goals, specifically goal one, no poverty, goal two, zero hunger, and goal three, good health and well-being.

John DeSimone ([00:51:41](#)):

These are the top three UN Sustainability Development goals, and we believe we can use our experience, scale, and reach to make a real difference. We will be issuing our first global responsibility report in the coming weeks. I encourage you to take a look and learn about our many programs.

John DeSimone ([00:51:59](#)):

Our initial efforts will focus on three key areas: nourishing healthy communities by partnering with leading global organizations, such as the World Food Program USA, to help eradicate hunger, nourishing

economic opportunities by advancing economic empowerment for underrepresented communities and promoting entrepreneurship, and, three, nourishing a thriving planet by reducing our carbon footprint and reducing our packaging and investing in new technologies that enable a more environmentally sustainable world. Here's a short preview. Underpinning all of our efforts is our core commitment to ensuring a diverse, equitable, and inclusive working environment, and to work honestly and ethically. We understand the important role we play in the lives of millions of people around the globe and know that every day we need to earn and maintain their trust. Our global responsibility initiatives define a new era for our company, and I look forward to sharing more information with you as we continue on our journey.

John DeSimone ([00:53:35](#)):

I joined this company in 2007, and it continues to be a deeply rewarding experience. Seeing how we can positively impact millions of people on a personal level is so inspiring. Yet we are now entering a new era, a new focus, with new initiatives and new products, all centered on the goal of being the most trusted nutrition and lifestyle company in the world. And how we work will demonstrate our commitment to creating a better world for both people and our planet.

John DeSimone ([00:54:06](#)):

There is significant potential, and we are confident in the growth opportunities that lie ahead. Our focus will continue to be on understanding distributors, customers, and their needs and what keeps them engaged and excited about Herbalife Nutrition.

John DeSimone ([00:54:21](#)):

One of the strengths of Herbalife Nutrition is the entrepreneurialism of our distributors and how they continue to find unique and innovative ways to keep evolving their business and servicing their customers. Our distributors embrace this evolution with a creative spirit, and this spirit is further reflected by a distributor in India who shifted his business to a virtual format during the pandemic. Let's take a look at his story.

Speaker 3 ([00:54:46](#)):

We've been able to give ordinary people like me an opportunity to change someone else's life. And this is a far more powerful motivation to a person than even material gifts.

Speaker 3 ([00:55:10](#)):

Hello. My name is Shyamal Rai. I am from Lucknow, India.

Speaker 3 ([00:55:15](#)):

In the morning, we are ready to exercise with our nutrition club list. And every day, there will come more than 100 people on our Zoom virtual nutrition club link, and they exercise with us. We have a good time, and then we interact with them.

Speaker 3 ([00:55:28](#)):

Followup is an extremely important part of what we do, following up not just with the prospects, but following up with our nutrition club members, because we commit to them 24 hours a day. We use WhatsApp specifically to follow up through the day with our consumers. Opens them up for greater

interaction with us, so over the long period of time, it creates an amazing professional relationship, which allows us to duplicate our business.

Speaker 3 ([00:55:55](#)):

Thank you so much. All the best. Bye.

Speaker 3 ([00:56:02](#)):

Virtual will now always be bigger than physical. The access it has provided, the doors it has opened, it's unbelievable. So when we get back to our physical nutrition clubs, I think hybrid is the way to go forward, because that will take care of everybody. So we have consumers in Europe, in North America, in Australia, in Singapore, and it's really, really exciting how a business is happening.

Speaker 3 ([00:56:32](#)):

I look at Herbalife as a force of good within the community, that we are going to play our own small role in changing the nutritional habits of the world. And as a result, we are going to have a positive impact on the lives of people.

Eric Monroe ([00:56:55](#)):

Thank you, John. Now that we have shared more about our customer retention goal and our future growth strategies, we would like to dive deeper into one of those strategies, digital transformation.

Eric Monroe ([00:57:07](#)):

As John DeSimone touched on earlier, our digital transformation will include how we invest in technologies that help our distributors be more efficient and effective by providing them with tools they need to best reach and engage with their customers.

Eric Monroe ([00:57:21](#)):

This key area is critical to our long-term growth. So what exactly does our digital transformation journey look like? We will explore this question in our next segment, a fireside chat hosted by Steph Wissink, Managing Director, Research Analyst at Jeffries.

Eric Monroe ([00:57:38](#)):

Participating in the fireside chat are Herbalife Nutrition's Frank Lamberti, Chief of Staff and Executive Vice President of Distributor and Customer Experience, Rhonda Vetere, Chief Information Officer, and Joe Miranda, Chief Digital Officer.

Eric Monroe ([00:57:54](#)):

We hope you enjoy this discussion and find it informative and engaging. I'll pass it on to you, Steph.

Steph Wissink ([00:58:02](#)):

Hello, everyone. It's great to be here t-

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Steph Wissink ([00:58:03](#)):

Hello, everyone. It's great to be here today. We're gonna spend the next 20 to 25 minutes exploring Herbalife Nutrition's digital transformation. And what you're going to hear is that this directive has been underway for many years. Much of the foundation is in place and the next phase is really about enhancing the distributor and customer experience.

Steph Wissink ([00:58:21](#)):

In lieu of formal introductions to each speaker, I'm going to pose questions that will help you see the importance of their roles in the digital transformation.

Steph Wissink ([00:58:29](#)):

So Frank, we're gonna start with you. You've been at the company for 17 years. You've held various positions. But in one of those roles, you've been responsible for distributor technology. So what is Herbalife Nutrition's history with delivering digital tools?

Frank Lamberti ([00:58:44](#)):

Thanks, Stephanie. At Herbalife, we've been building digital tools for more than 15 years now. Tools that support point of sale transactions, analytics, e-commerce capabilities, online wellness questionnaires and many other functions to support the success of our distributors and their customers. These tools were built at points in time to support a specific function or a specific need. And all the applications were built on a legacy infrastructure over a long period of time and have served our distributors very well.

Steph Wissink ([00:59:11](#)):

So what's changed since, making you think differently about delivering digital experiences?

Frank Lamberti ([00:59:17](#)):

Well, the big change was access to data. As a result of changes to our US business in 2017, which included the point of sale capabilities, we now have access to customer data. And having access to this transactional customer data changed the way we think about data, where it should be accessed, and how it can be utilized by our distributors to help them build stronger relationships with their customers.

Frank Lamberti ([00:59:39](#)):

So what happened was, the demand for customer data increased significantly across multiple applications. Our users not only wanted the data, but more importantly, the insights. And they wanted the insights in an easy to access way, which led us to the realization that we needed to modernize our infrastructure and change the way we're building our tools for our distributors.

Steph Wissink ([00:59:59](#)):

So the company has made two strategic hires. We can see them sitting next to you. Tell us who they are and what the vision is for the new leadership team.

Frank Lamberti ([01:00:07](#)):

Sure. Well, our first key hire was Rhonda Vetera, our CIO. And we brought Rhona on board because she has extensive experience with implementing modern infrastructure, revamping data architecture, and leading companies through digital transformations. And once the foundation to modernize our systems and processes were underway, and by this I'm referring to migrating data into the cloud, optimizing our IT talent, and continuing the development of our cyber and privacy programs, then we hired Joe as our company's first Chief Digital Officer. And as Joe builds out his digital team, they'll be able to leverage that modern infrastructure to deliver digital tools and experiences for our distributors and their customers.

Frank Lamberti ([01:00:45](#)):

And with the new leadership team in place, our vision is really to deliver digital tools with greater functionality, increase deliver times, while minimizing technical debt in the process. And really making sure that everything we do is designed around enhancing the experiences of our distributors and their customers.

Frank Lamberti ([01:01:01](#)):

And in order to achieve this, we're really focused on two key areas. The first one is ease of use. We want our tools to be easy to use for distributors and their customers by really providing a seamless environment as they use the tools. And second, we wanna create scale. Our tools should ease the administrative functions of distributors so that they can spend more time building strong relationships with their customers.

Steph Wissink ([01:01:24](#)):

So Rhonda, I wanna bring you into the conversation because, taking a step back, when you joined 18 months ago, what did you initially notice about the status of technology at the company? But then also I wanna recognize that you joined at the beginning of a global pandemic. So help us compare and contrast kind of what you observed versus the quick action steps you had to take as the new CIO.

Rhonda Vetere ([01:01:45](#)):

Thank you, Stephanie. First off, let me say that I hope everyone is safe and well during these unprecedented pandemic. During this pandemic, our technology organization did not skip a beat. And like all companies that are focused on technology and innovation, we have been steadily improving our system reliability, which has been critical in supporting new records for online sales. Even prior to the pandemic, the company invested hundreds of millions of dollars over the years in the foundation that created stability for accounting, paying our distributors, lineage reporting for our distributors, and a myriad of other countless functions that have provided the foundation to our current digital journey.

Rhonda Vetere ([01:02:33](#)):

In recent years, we have been focused primarily on three key areas: enhancing the environment, assessing and adjusting our technology talent, and understanding the prioritization of the application portfolio. All designed to lay the digital architecture and infrastructure foundation for a nimbler transformation.

Rhonda Vetere ([01:02:55](#)):

And the business was growing. We were energized by the momentum and working behind the scenes to create operational efficiencies that would benefit our distributors and their customers. And, of course, this work included utilizing the best and latest technologies offered by the industry. Salesforce and Oracle are perfect examples of this. A pair of industry best technologies that we now have.

Rhonda Vetere ([01:03:23](#)):

To continuously improve and innovate, we created a capability map illustrating the business capabilities needed to achieve our objectives for a unified technology organization was so helpful. This framework ensured that we'd be set for future growth. And at the same time, we dove into prioritizing our application portfolio, which was a significant undertaking. This process enabled us to redirect our resources on the applications that add value to our distributors. Retiring historic applications minimizes technical debt and frees up resources to focus on new architecture and enhanced product delivery. And as we were doing this, all of this COVID just hit.

Steph Wissink ([01:04:16](#)):

So that must have been a pretty dramatic pivot. So talk about how you responded.

Rhonda Vetere ([01:04:20](#)):

Oh, it certainly was a pivot, uh, Stephanie. Our business continuity and system stability were more critical than ever as the entire company transitioned to working from home. And as we continued to work to minimize disruption to serving our distributors and their customers, who were simultaneously taking much of their business online, our team pulled together to deliver.

Rhonda Vetere ([01:04:45](#)):

In March of 2020, we saw an increased dependency on our core systems. As more distributors and their customers pivoted to online ordering, digital point of sale capabilities, and analytics. Additionally, we began shifting our live events to virtual platforms. And as I said in my opener, this has led us to set new records for online sales generated simultaneously with a steady improvement in system reliability.

Rhonda Vetere ([01:05:16](#)):

And at this point in our journey, our core digital tools such as Herbalife.com, MyHerbalife.com, GoHerbalife.com, and bizworks, which enable order ship and pay more efficiently, have rolled out to 96% of our markets. Beyond enhancing our distributor and their customer transaction experience, we also pulled off Herbalife's first ever virtual Herbalife Honors, which was a worldwide event where thousands of distributors gathered to celebrate and share their experiences. Honors used to be an in person event. And converting Honors to virtual events around the world was a Herculean effort if there ever was one. That is why 88% distributor satisfaction rate was so gratifying.

Rhonda Vetere ([01:06:07](#)):

For the first half of the year, e-commerce orders went up 10% year over year. And a whopping 32% compared to the first half of 2019. As I said at the beginning, our big picture goal from the start was to set up the architecture and build the infrastructure to enable a nimble transformation.

Steph Wissink ([01:06:29](#)):

So Rhonda, after enhancing and strengthening the infrastructure, what was the next area of focus?

Rhonda Vetere ([01:06:34](#)):

Steph, our next area of focus was to build a data driven capability for both Herbalife and distributors. For example, if you look at our distributor base today, they predominantly sell shakes, teas and aloe. Given the size of our portfolio beyond these three products, the opportunity for our distributors to sell Herbalife's broad range of products to their customer base is significant. To do that, we need customer data. Their goals, their behaviors, their profiles. If we understand the customer and their product affinities, we can then use AI to auto-suggest to our distributors what the next best actions can be as they build relationships with their customers.

Rhonda Vetere ([01:07:23](#)):

Part of this also signals another layer of data opportunity, an advantage in the form of data on our distributor training and figuring out if that training has resonated with our distributors and whether it has translated into sales. This data can guide our training team to create programs that are more tailored to the distributors based on their learning needs so they can have more effective conversations with their customers.

Rhonda Vetere ([01:07:52](#)):

Our AI and IT capabilities do not end with our distributors and their customers. We can use data for predictive supply chain visibility, enabling us to manage our inventory levels more efficiency while enhancing the experience of our distributors and customers by providing visibility and tracking on their orders, which can lead to greater affinity and trust.

Rhonda Vetere ([01:08:18](#)):

Here's the bottom line. We have a huge opportunity to not only enable our distributors to cross sell and upsell, but also manage our operational support in an intelligent way driven by data, analytics and AI. And we're ready for our next phase of transformation. Addressing our digital environment, tools and experiences for our distributors and their customers. Working with a group of distributors from around the world, we aim to identify business goals, distributor and customer needs, and success metrics that will help chart and drive our digital road map. Ultimately, this will enable a seamless and superlative digital experience for their distributors and their customers.

Rhonda Vetere ([01:09:05](#)):

Steve Jobs said it best. You've gotta start with the customer experience and work backwards to the technology, not the other way around.

Steph Wissink ([01:09:14](#)):

Thank you, Rhonda. That's super insightful. So we've heard from Frank about the history in distributor engagement. Rhonda about the investments that have been made to establish the foundation. So, Joe, I wanna bring you in to the conversation. You bring a really unique outside perspective. What areas are you specifically focused on to leverage the infrastructure and advance the digital strategy at Herbalife?

Joe Miranda ([01:09:35](#)):

Thank you, Stephanie. Look, it's clear that Herbalife Nutrition is driving incredible growth. And what's fantastic is we still have a long runway of digital opportunities in front of us. The investments being made in technology are certainly a big part of where we're going. Rhonda's focus on enhancing our

infrastructure, rolling out core tools to 96% of our markets, and beginning the journey to cloud are the foundations to our digital transformation and the cornerstone to organizational agility. And it's so exciting. We're already proving that digital works at Herbalife. And I'd like to walk you through three brief examples.

Joe Miranda ([01:10:10](#)):

So let's start with bizworks. Bizworks is a digital application that our distributors use to track and analyze their business growth and down line performance. Through bizworks we're already using predictive analytics and artificial intelligence to provide distributors with key insights to help them manage their organizations. We've provided distributors with automated recommendations to follow up with their down line when someone has no volume and needs leadership support, or when someone is about to level up to supervisor.

Joe Miranda ([01:10:38](#)):

We also have an order predictability AI model that can notify a distributor about who in their down line is predicted to place an order, which also could lead to additional volume. And it's just amazing to see how our most successful distributors are already using this tool.

Joe Miranda ([01:10:53](#)):

Another great example is HNGrow. HNGrow is a digital learning application that supports distributor education all around the world. This application provides learning modules about products, nutrition and lifestyle, our business, and paths to personal development. For new distributors, HNGrow provides a guided curriculum showing them where they can focus their sales and leadership efforts to take their business to the next level. For experienced distributors, the app provides them with opportunities to continue to learn and grow their business.

Joe Miranda ([01:11:23](#)):

Moving forward, we can build personalized learning paths and content recommendations based on distributor tenure, the marketing plan level they're at, product knowledge, and business experience.

Joe Miranda ([01:11:35](#)):

And finally, we have our nutrition clubs, another key driver of growth. Where we've developed a suite of applications that we call the Nutrition Club Experience. Through this experience, we're enabling our distributors to provide their customers with an integrated physical and digital experience just like one would expect at Starbucks. Customers can order and pay for their favorite shakes right from their mobile device and that shake will be waiting for them when they arrive at the club. We've also delivered a strong point of sale system, enabling distributors to operate their clubs more efficiently.

Joe Miranda ([01:12:06](#)):

But the best part of our Nutrition Club Experience is the way our applications will interact- interact to provide personalized experiences. When a customer orders a shake through our mobile application, a distributor, using the point of sale system, will receive customer information right at their fingertips so they can greet that customer by name and choose to strike up a conversation about specific aspects of their fitness or their weight loss goals, which enhances the overall experience. Just a simple data point

like knowing their customer's birthday could lead to a happy birthday greeting and a discount off their favorite shake when they walk right through the door.

Joe Miranda ([01:12:41](#)):

You know, this is how you surprise and delight your customers and deepen relationships overall. And it's successes like bizworks, HNGrow, the Nutrition Club, that make me confident that we're moving in the right direction and laying the building blocks for our digital transformation.

Steph Wissink ([01:12:56](#)):

See, we've loosely used these words, digital transformation, which feels a little bit generic, um, to describe what's happening. But to put a finer point on it, what does digital transformation mean at Herbalife Nutrition?

Joe Miranda ([01:13:09](#)):

So digital transformation means infusing all aspects of our business, whether referring to our internal company systems and processes or supporting applications for our distributors and their customers, with market leading technology, uh, relevant data and insights, and designing world class experiences. But most importantly, it means bolstering the entrepreneurial spirit of our distributors with the right knowledge, insights and technology to take their business to the next level while delivering trusted brand experiences to help them connect with customers and, inevitably, achieve results.

Steph Wissink ([01:13:42](#)):

Yeah. I think it's really important to emphasize this. That you're a B2B2C company. So the digital infrastructure and the toolkit that you need, it has to be considerate of that set of connections. So talk a little bit about what that means.

Joe Miranda ([01:13:56](#)):

Yeah. Our biggest opportunity, as Frank mentioned- Frank mentioned earlier, is designing a unified end to end digital platform that connects our company to distributors and customers by providing world class experiences and tapping into the limitless possibilities of data. And the gateway to delivering this digital platform is leveraging a modern, integrated technical foundation, as Rhonda mentioned earlier.

Joe Miranda ([01:14:20](#)):

However, when we're talking about platform, it goes well beyond technology. What we're describing is a fully integrated, easy to use, Herbalife brand experience that supports the end to end distributor and customer journey. A connected ecosystem where distributors and customers both consume and create content, where they transact, forge relationships, and build communities. Inevitably, we're looking for them to achieve business outcomes.

Joe Miranda ([01:14:47](#)):

We believe a shift to platform will amplify and modernize the distributor difference that has made Herbalife Nutrition successful for more than 40 years.

Joe Miranda ([01:14:56](#)):

Now, as we move the platform, we'll align our core tools and design benchmark customer experiences. So what do I mean by that? Well, we can help distributors sign up and be approved in a matter of minutes instead of hours. We can enhance our e-commerce process, allowing distributors and customers to place orders with a few clicks, embracing industry best practices. We can harness our internal data and combine it with external data to help distributors create individually tailored wellness programs for their customers.

Joe Miranda ([01:15:28](#)):

You know, Herbalife Nutrition aspires to be the most trusted nutrition and lifestyle company in the world. And we believe digital will power that journey.

Steph Wissink ([01:15:35](#)):

So stepping back again, clearly the digital landscape is changing rapidly. Where do you see the future of digital at Herbalife?

Joe Miranda ([01:15:42](#)):

So the future for us means being at the cutting edge of what's possible. It means tapping into data and AI and intelligent automation and e-commerce to transform the distributor journey. And data's at the heart of it. The next phase is about using all aspects of data in a compliant manner to supercharge distributor business growth and provide them with capabilities that deepen relationships with their customers through trusted experiences.

Joe Miranda ([01:16:08](#)):

So, for example, we can let a distributor know that they're 100 volume points away from reaching their sales goals and provide them with suggestions they need to get there. We can create goal oriented distributor training content so personalized it's unique to each distributor, nudging them along the way to a desired outcome. We can offer integrated nutrition and wellness and fitness programs that continually update and are completely customized based on leading scientific research, customer preference, and real time biometric data. We can continually improve distributor sign up, onboarding, and ordering experiences, ensuring optimal outcomes, performance, and distributor satisfaction overall. And all of this is possible with data and AI.

Steph Wissink ([01:16:49](#)):

Okay. So hold on, Joe. Those are buzzy words. AI, personalization. These are things we hear big companies talk about. So how does this connect to your longer term vision for the brand and the experience?

Joe Miranda ([01:17:02](#)):

So long term, we'll be able to take this data and loop it into our R&D process, and use it to develop new products and- that are designed specifically for our distributors and their customers. Um, intelligent automation will further transform our distributors and our internal operations. So internally, intelligent automation will help future proof the organization, driving efficiency and speed.

Joe Miranda ([01:17:23](#)):

For our distributors it means we can reduce the administrative burden so they can focus more time on delivering differentiated experiences to their distributors and customers. And, you know, we talked about it earlier- earlier. COVID has had a dramatic impact on the digital landscape. A move to digital that was projected to take almost a decade has happened in the last 18 months. Uh, e-commerce rapidly accelerated during COVID. And as consumers, we're all further reliant on digital tools.

Joe Miranda ([01:17:51](#)):

Additionally, e-commerce has expanded into the world of social media. Consumers will not only engage with distributors as they are today through social media, but they'll also expect to- the ability to transact directly within that social media platform. And this provides us with a fantastic opportunity to be where our distributors and customers interact. And make these moments that matter as simple and as efficient as possible.

Joe Miranda ([01:18:14](#)):

So the big message is that data, AI, intelligent automation, social commerce, are no longer out on the horizon. They're right here. Uh, they're within our grasp. And we're on a journey to transform our business and to optimize the experience of our distributors and customers.

Steph Wissink ([01:18:30](#)):

So Frank, I wanna leave final thought with you as the bit of a historian, having been at the company for so long. What message do you wanna leave investors with as they think about Herbalife's digital transformation?

Frank Lamberti ([01:18:43](#)):

Thanks. So I think the first, um, and most important thing is to mention is we've been on this digital journey for some time now. And, um, you know, our entire organization is ready. Our employees are ready. Um, and many of the foundational elements are already in place. And as we look forward, building our tools on a unified platform will really enhance the experience of our distributors and their customers, as Joe said and as Rhonda stated. And really providing a suite of products that utilize data to create scale for our distributors and create those personalized experiences for their customers, will really increase the value that our distributors are already bringing to the marketplace.

Frank Lamberti ([01:19:18](#)):

And finally, if you haven't heard it in our voices today, you know, we're really excited. We're excited about what the future holds. Our employees are excited about the changes that lie ahead. And most important, our distributors are important about all of the possibilities that digital will bring to their businesses.

Steph Wissink ([01:19:31](#)):

It's so encouraging to hear how unified the three of you are in your vision for what the future holds. Clearly there are numerous exciting digital initiatives underway. And we look forward to seeing what the outcomes are of that in the business performance.

Steph Wissink ([01:19:44](#)):

Um, I do trust that this digital transformation conversation will continue for many years to come, just giving the- giving us some hints that you have today.

Steph Wissink ([01:19:52](#)):

I just wanna say thank you to the three of you for joining me on screen today. And thank you everyone for listening in, uh, for this wonderfully engaging discussion. Have a wonderful day.

Polly ([01:20:05](#)):

Hi, my name is Polly.

Speaker 4 ([01:20:07](#)):

My name is [inaudible 01:20:08]. We're living in [inaudible 01:20:10], here in Israel. And we love it. We love to work here.

Polly ([01:20:14](#)):

I became a distributor, eh, when I was 19 years old. I think this is the best gift, uh, my family have ever had. The opportunity to join this amazing company, to change their, uh, nutrition habits and to help other people to change their life.

Polly ([01:20:34](#)):

We want to build a community of people that feel a part of something. We use Instagram, Facebook, WhatsApp, Telegram. And it help us to connect more people in very short time. And to make people interested in what we do.

Speaker 4 ([01:20:52](#)):

We use for each platform that focus in that generation, that you need to be focused on. The younger, we use the Telegram and Instagram. The older, uh, we use Facebook. And the WhatsApp is for all of the generation. We guess- we probably have little bit more of that ge- generation because this is our generation.

Polly ([01:21:15](#)):

I think the media helps us to promote the important of the nutrition. [inaudible 01:21:26] The approach of doing body challenges is to build a small community of people that compete each other and want to be the best version of themselves. These days people are more interested, eh, on their nutrition, their health, how they look.

Polly ([01:21:48](#)):

We also want to build a community of success people, happy people, people who change their nutrition habits. And this way they get the best results of themselves and they tell people and we can make this community bigger and bigger.

Humbi Calleja ([01:22:19](#)):

Herbalife Nutrition is a business for everyone. Our innovative products, the distributor difference, and entrepreneurial opportunities help us attract customers of all ages and interests.

Humbi Calleja ([01:22:32](#)):

Recent market research commissioned by Herbalife Nutrition and conducted by One Poll confirmed that 74% of Millennials and Gen Z have dreams of becoming an entrepreneur. Half of them said their age will help their chances of success. And when they were asked why, most of them said because they are better at adapting to new technology than older generations.

Humbi Calleja ([01:22:54](#)):

There is a greater interest in our business from younger populations. During our last earnings call we shared that approximately two thirds of new distributors and preferred customers who join Herbalife Nutrition during the second quarter of 2021 were Millennials or Gen Z.

Humbi Calleja ([01:23:10](#)):

It is exciting to see more engagement. Gen Z is a mobile first generation that cares about physical and mental wellness, financial stability, and social responsibility. Our brand resonates with this younger demographic. In fact, 14% of new distributors and preferred customers who joined Herbalife Nutrition during the second quarter were Gen Z. This is compared to 10% in Q2 2019.

Humbi Calleja ([01:23:38](#)):

This consumer data guides our strategies. I'll share two key elements of our growth strategy structured around this generation. Across markets, our science based products align with global consumer trends, local preference, and choice. We have, uh, snacks, beauty from within products, and we're also entering into new categories with our new hemp [inaudible 01:24:00] and original offerings in the US. We're also looking into offering clean label and vegan products, and expanding the Herbalife 24 sports nutrition line.

Humbi Calleja ([01:24:11](#)):

Our energy, sports and fitness core category, which accounts for approximately \$515 million in the last 12 months, from July 2020 to June 2021, grew 45% in net sales in Q2 2021, compared to Q2 2020. For Gen Z, this category grew 86% in net sales compared to Q2 2020.

Humbi Calleja ([01:24:34](#)):

The entrepreneurial spirit of this generation aligns with the Herbalife Nutrition business opportunity, supported by distributor enabling technology and social media tools. For example, in the US, approximately 65% of nutrition club operators, Millennials or Gen Z, of which 20% are Gen Z. They all use our proprietary POS app, HNmyClub. And we have just launched in March 2020 our proprietary customer app, Engage, that supports a mobile first order and payment experience.

Humbi Calleja ([01:25:11](#)):

Our expansion of brand presence and community engagement on social channels positions us well in reaching Gen Z audience with relatable messaging, including social responsibility. From product innovation to technology to marketing and communication, Gen Z's an important part of our business and a key focus of our strategy.

Miriam ([01:25:35](#)):

They say what their purpose is, at the end, help people. People comes to us because they, they need something. They need a change. And they see something in us that they want to have.

Miriam ([01:25:46](#)):

Hello, my name is Miriam.

Pablo ([01:25:48](#)):

Hello, my name is Pablo. And we live in Marbella in Spain. Everything I learned from her. Everything-how to get clients to have the retention, uh, and how you have to do the duplication.

Miriam ([01:26:03](#)):

[Spanish 01:26:03]

Pablo ([01:26:11](#)):

We share our meals. We share our breakfast or, or shake. We share our, uh, work outs.

Miriam ([01:26:19](#)):

[Spanish 01:26:19]

Pablo ([01:26:19](#)):

We use it a lot for the retention. Eh, because we create the connection with the clients. What we give to our clients, or to our, um, followers-

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Pablo ([01:27:03](#)):

... if to our clients or to our, um, followers, we give content. Some of them follow us, because they love the story. How she tell it, because she is very sweet. Real content about one normal family, one real family that, eh, our having probably the same situation than her.

Speaker 5 ([01:27:21](#)):

[Spanish 01:27:21].

Pablo ([01:27:21](#)):

When I met Herbalife, I said, "Mm, this is the food of the future."

Speaker 5 ([01:27:57](#)):

[Spanish 01:27:57].

Alex Amezcuita ([01:28:13](#)):

What an incredible story. And what I hope you are taking away from Pablo, as well as our other segments that provide a window into our channel, is an understanding of why we believe our channel is our core competitive advantage, this very personal and personalized connection our channel has all over the world. It is dynamic. And it can be nimble and react in real time to evolving changes in consumer

demands and preferences in a very localized way. This is a channel that would be extraordinarily difficult to replicate.

Alex Amezcuita ([01:28:48](#)):

Now, we began our day with John Agwunobi laying out the foundation for our vision and sharing our outlook for the future. He also touched on how this vision translates financially, as represented by our long-term growth algorithm.

Alex Amezcuita ([01:29:02](#)):

In this segment, I will go a layer deeper to give more context on our financial model and our confidence in it. The foundation of our long-term growth algorithm is organic net sales growth in the mid to high single-digit range. Through modest operating leverage, we believe annual adjusted [EBITDA 01:29:19] growth is achievable in the high single-digit range. And by efficiently repurchasing shares, ultimately as a result of our strong cashflow generation, we believe our adjusted reported earnings per share growth is on track to be in the double-digit range.

Alex Amezcuita ([01:29:34](#)):

It is important to note that the annual, the growth rate estimates for net sales, adjusted EBITDA, and adjusted EPS assume a constant currency environment. I'll touch more on currency impacts on our financial model in just a moment.

Alex Amezcuita ([01:29:48](#)):

When we look back at our constant currency performance over the past 5, 7, and 10 years, we can see annual net sales, adjusted EBITDA, and adjusted EPS growth rates that are consistent with our long-term growth algorithm.

Alex Amezcuita ([01:30:02](#)):

Earlier, John DeSimone discussed the specific strategies that support our future top-line performance. These strategies ride on the tailwinds from global mega trends such as providing solutions for the global obesity and overweight epidemic, addressing rapidly rising public health costs through prevention with better nutrition, increasing consumer demand from aging healthier across all generations, including millennials and Gen Z, and growing consumer trends that support fit and active lifestyles.

Alex Amezcuita ([01:30:35](#)):

These global mega trends benefit our distinct product categories: weight management, targeted nutrition, and sports nutrition. Which are all forecasted by Euromonitor to grow in the mid to high single digits through 2025.

Alex Amezcuita ([01:30:49](#)):

Further, we see these global mega trends benefiting the overall health and wellness space as we canvas our peer universe across global nutrition, U.S. MidCap food, direct selling companies that participate in health and wellness, and the broader active lifestyle company set. Our core peer group is expected to achieve near-term top-line growth in the high single to low double-digit range.

Alex Amezcuita ([01:31:11](#)):

So, when we take in the forecasted growth from our product categories, the global mega trends that support them, the specific Herbalife nutrition strategies that we are employing to address them, and canvas the growth expectations from our core peers that are benefiting from the same health and wellness trends that we are, we are confident in our ability to drive annual net sales growth in the mid to high single-digit range over time.

Alex Amezcua ([01:31:35](#)):

Now, let's move down to P&L and address our margin profile and discuss how our top-line growth translates into incremental adjusted EBITDA growth as we benefit from modest operating leverage.

Alex Amezcua ([01:31:46](#)):

As a reminder, about two thirds of our cost structure is directly variable with top-line sales. But there is opportunity for some leverage from top-line growth. To evidence this, let's take a look at our margin performance since 2011. Now, as a company that reports in U.S. dollars and generates the majority of net sales outside of the United States, it is important to understand how currency has impacted margins, and ultimately normalize for that impact, so that we can see how the business has performed without the distortion from changes in foreign exchange rates.

Alex Amezcua ([01:32:19](#)):

We are starting at 2011, as this was the first of what is now a decade-long foreign exchange environment in which the U.S. dollar has strengthened each and every year. As a result, our P&L generally benefits from a weakening U.S. dollar and is pressured by a strengthening U.S. dollar.

Alex Amezcua ([01:32:36](#)):

The constant strengthening of the U.S. dollar has overshadowed the operating leverage inherent in the business. When normalizing for foreign exchange, there has been meaningful expansion in our adjusted EBITDA margin over the past decade. Expansion that has occurred even with the significant incremental investments we have made in technology, quality in our manufacturing process, compliance, product development, R&D capability, and expansion into new markets.

Alex Amezcua ([01:33:04](#)):

Distinct from foreign exchange, and what is not reflected on the graphic, is the impact to margin percentage as a result of China's contribution to annual net sales mix, increase this period from approximately 6% in 2011 to 15% in 2020.

Alex Amezcua ([01:33:20](#)):

Giving the accounting treatment of how China sales are recorded on our P&L versus the rest of the world, this mix change adversely impacts our margin by approximately 60 basis points over the time period.

Alex Amezcua ([01:33:31](#)):

If we normalize the impact to margin percentage from both foreign exchange and China's change in net sales mix, we have achieved approximately 20 to 25 basis points of margin expansion annually. This performance is representative of the opportunity we see in our adjusted EBITDA margin going forward.

Alex Amezcuita ([01:33:50](#)):

As we look into the future and at how our margin profile will continue to trend, not only will we continue to look for opportunities to create efficiencies as we continue to scale, but also, we believe in the defensibility from threats through the significant barriers to entry we have built over our 41-year history.

Alex Amezcuita ([01:34:11](#)):

I touched on this earlier, but our channel, composed of tens of thousands of small businesses in 95 markets around the world, that authentically as identified with the health and wellness space, would be extraordinarily difficult to replicate.

Alex Amezcuita ([01:34:25](#)):

We have invested approximately \$300 million in our Seed to Feed manufacturing footprint where we have industry-leading manufacturing technology, know-how, and quality standards. We believe we set the gold standard in terms of product quality in our industry, which is incredibly important when instilling confidence in our customers and our channel.

Alex Amezcuita ([01:34:45](#)):

Our best in class manufacturing capability, particularly in powders and liquid aloe, which are scarce capacity in the world, is supported by the development of nine quality labs, employing 300 scientists and 50 PhDs. And, again, to replicate this capability would require an extraordinary amount of time and investment of capital.

Alex Amezcuita ([01:35:08](#)):

The pricing power we have been able to exercise in a world where online retailers have exerted significant pricing pressure on traditional retail also provides us confidence. Over the last five years, and normalizing for the hyper-inflationary conditions in Venezuela, we have averaged annual price increases of approximately 2.7%.

Alex Amezcuita ([01:35:29](#)):

Now, as we move to adjusted EPS growth, the third component of our long-term growth algorithm, it is important to start with the engine that accelerates adjusted EPS growth into the double-digit range. That is the strong cashflow generation engine of our business model.

Alex Amezcuita ([01:35:45](#)):

We have generated over \$6 billion in adjusted operating cashflow over the last 10 years, averaging approximately 600 million annually over this time period. This stability is despite the significant strengthening of the U.S. dollar over this time period that I discussed earlier. Again, for context, regarding the magnitude of this impact, if 2020 were at 2011 foreign exchange rates, we would have generated an incremental 600 million to the \$734 million of adjusted operating cashflow.

Alex Amezcuita ([01:36:18](#)):

Now, let me quickly review our capital allocation policy. First, like any company that has a debt component to their capital structure, we have to service our debt obligations. Second, we prioritize internal investments that strengthen our business and support our growth strategy. And on this front,

our financial results continue to reflect investment in technology, manufacturing, and in infrastructure at levels that we will believe will sustain through our next decade of growth.

Alex Amezcuita ([01:36:47](#)):

Next, we evaluate external investment opportunities, including partnerships and acquisitions that help us leverage speed to market opportunities, acquisition of know-how, and industry trends that are consistent with our purpose and vision. Lastly, we responsibly return excess cash to shareholders, which since 2014 has been done exclusively to through share repurchases. This policy has enabled us to service our debt comfortably, invest for the future, and return approximately 83% of available cash to shareholders, or \$5.6 billion, over the past 10 years.

Alex Amezcuita ([01:37:23](#)):

And last, our use of debt and management of the balance sheet has put Herbalife nutrition at a position of strength going forward. We manage the capital structure and financial profile of, of Herbalife nutrition to be consistent with companies that earn an investment-grade rating.

Alex Amezcuita ([01:37:39](#)):

Our target leverage ratio is three times total debt to EBITDA and we are currently just below our target at 2.7 times. Going forward, we have no material [inaudible 01:37:50] maturities until 2024.

Alex Amezcuita ([01:37:53](#)):

As I wrap up this segment, I am hopeful you take away a clear understanding of the financial model of Herbalife nutrition represented by our long-term growth algorithm. Whether we go back 5, 7, or 10 years, our historical performance is consistent on top-line growth, adjusted EBITDA growth, and adjusted EPS growth with our algorithm. We believe our strategy and the categories in the health and wellness space support top-line growth in the future. Our margin profile is sound and on a constant currency basis should yield 20 to 25 basis points of adjusted EBITDA margin expansion annually. And lastly, our capital structure, capital allocation policy, and cashflow generation ability supports incremental adjusted EPS growth through return of capital by way of share repurchases.

Alex Amezcuita ([01:38:41](#)):

Now, let's take one more look at our channel in action. [Quentin 01:38:44], a distributor who is based in Europe, is a great representation of how he uses the purpose of a healthier active lifestyle to attract, retain, and motivate high-value customers.

Quentin ([01:38:56](#)):

I really saw myself, like, being able to become someone of value. It's not just about helping people, it's about helping people move forward in life, that's really my mission. My name is Quentin [Aurevoir 01:39:12], so I am now currently living in the south of France in [Cannes 01:39:16]. I started my Herbalife journey back in, uh, 2012. I still can't believe it was, uh, nine years ago.

Quentin ([01:39:22](#)):

I decided to start and open my own fit camp and it started with just four people. And we went all the way up to 100 people in just three months of hard work. We really want to make a difference, you

know, in people's lives. Not to only sell the products, but to really be part of a community, a positive community.

Quentin ([01:39:42](#)):

So, when I'm looking at today's, um, approach to new people, we are some clicks away, sometimes, to reach out to new people on social media. I share that we have a nutrition club, that we have our fit camps, that people can then experience our online agenda as well.

Speaker 6 ([01:39:57](#)):

Woo!

Quentin ([01:40:01](#)):

[Foreign language 01:40:01].

Speaker 6 ([01:40:02](#)):

Woo!

Quentin ([01:40:02](#)):

When I'm looking at my social media now, Instagram and Facebook, they are really my top two. And really now number three is coming up strong, it's TikTok where you can really be creative in your own way to show your reels to show your videos to have 10, 15 seconds shots of yourself doing whatever you are doing. W- With our Facebook groups or with our Telegram chats, people get an inspiration from the coaches, from our ambassadors to really see what we do.

Speaker 6 ([01:40:27](#)):

Woo!

Quentin ([01:40:30](#)):

[Foreign language 01:40:30].

Speaker 6 ([01:40:30](#)):

Oh!

Quentin ([01:40:30](#)):

[Foreign language 01:40:30]. We get to show and document where we are going to see some online boot camps, some cooking classes, some breakfast club. We are going to see some, um, you know, how to make your groceries, and all of that, for example, is going to be an inspiration for our new customers. On my day-to-day basis today, uh, 80% of my work is really follow-up and taking people to the next level.

Speaker 6 ([01:40:53](#)):

Woo!

Quentin ([01:40:55](#)):

And it's not just about weight loss or weight gain, it's really about helping people feel better, show themselves out there with a better version of themselves. I really believe that the younger generation, they are just basically looking up to, you know, what they have to do next. And, uh, basically we need to give them an example of what their life could be.

Speaker 6 ([01:41:17](#)):

Yeah!

Quentin ([01:41:22](#)):

[Foreign language 01:41:22].

Speaker 6 ([01:41:23](#)):

[Foreign language 01:41:23]!

Eric Monroe ([01:41:32](#)):

As you can see, we believe there are many reasons why Herbalife Nutrition is an attractive opportunity for investors. You heard from John Agwunobi who shared our vision for growth, then John DeSimone covered our growth strategies and our key objective of customer retention. We also went in-depth on our digital transformation growth strategy and our increased focus on millennials and Gen Z. And finally, Alex Amezcua wrapped up our presentation with our financial outlook and our long-term growth algorithm.

Eric Monroe ([01:42:04](#)):

I'd now like to welcome back to the stage John Agwunobi, John DeSimone, and Alex Amezcua for our Q&A session. We'll kick things off today with a question we received from several investors. Can you please provide some regional breakdown of what transpired in the third quarter?

John DeSimone ([01:42:23](#)):

Yeah, I'll take that, Eric. Um, so, I'm gonna use a piece of paper, I wanna make sure I get this, uh, accurate. And what I'm gonna provide is volume point performance for July and August combined versus last year. So, 2021 July and August versus 2020 July and August.

John DeSimone ([01:42:38](#)):

Um, but I'll start big picture, you know, last year's Q3 was a record Q3. Um, growth was, you know, 20-plus percent, uh, volume point globally. And so, remember, we're coming off some pretty high numbers and what I'm about to give you is off of those high numbers, but relative to 2019, the two-year stack, these are still good numbers. So, again, I'm gonna read these and then we're gonna post this online so that you have access to it.

John DeSimone ([01:43:02](#)):

Uh, I'll start with Asia Pacific for the two months, July and August, growth was 10.9%. So, it grew, um, double digits. China was down 15.5%, [EMEA 01:43:15] down 9.5, Mexico down 9.4, North America down 14.8, and, uh, S- South and Central America was down 16.3%, for a combined down of 8.7%.

John DeSimone ([01:43:28](#)):

So, that's the statistics, um, not the commentary necessarily, but the statistics. And, again, I wanna remind you it was against a, a really difficult comp last year, but these are good numbers versus 2019. And, uh, uh, Alex, I don't know if you wanna-

Alex Amezquita ([01:43:41](#)):

Yeah, um-

John DeSimone ([01:43:41](#)):

... add.

Alex Amezquita ([01:43:41](#)):

... you know, John, I know that we had down and, and I think one of the question is, particularly from our expectations, from our forecast for, for the q- for the third quarter, where, where were the areas that we saw lower than expected sales?

Alex Amezquita ([01:43:52](#)):

And I think the primary, um, uh, places were the U.S., EMEA, a little bit in Asia Pacific, and a little bit in China. And, um, I think important to that is also to give it context. Still U.S. is down a little bit, but versus 2019 still up in the mid-30s, that's where our current guidance for Q3 has, on a two-year stack rate, has up in the mid-30s. If we look at EMEA as a region, uh, down again, but then up almost 40%, that's what's in our guidance.

Alex Amezquita ([01:44:25](#)):

So, uh, really impressive, you know, the demand, the consumer demand in those markets still v- very strong. Again, right now what we're talking about is a little bit of a, a change in behavior that we've seen in those markets.

John Agwunobi ([01:44:35](#)):

You know, it is interesting, just to add a little more color to that, to kind of recognize that in these... this most recent period, there's been some markets that have been opening up from the pandemic with vaccinations and travel and, and, uh, uh, eh, you know, uh, work, and school beginning to open.

John Agwunobi ([01:44:56](#)):

But simultaneously, there, there have been other markets, in Asia, and around the world that have been locking down, uh, as a result of the pandemic. So, you have this mixed bag of things happening in the business all at the same time.

Eric Monroe ([01:45:11](#)):

Thank you guys. The next most common question we've received today is a little bit higher level as to why the sales turned negative in the third quarter. Um, John mentioned a little bit about COVID. Um, are we seeing anything on the supply side that's driving these challenges?

John DeSimone ([01:45:28](#)):

Yeah, so, first, I'll start with the s- the, the supply side and the answer's no. No, no- nothing material on the supply side that's driving, uh, the behavioral shift that we saw in Q3, and nothing to do with the, the announcement yesterday. Um, I think the core question is what's changed over the last five, six weeks, um, versus the guidance we had previously given, and why did it change so fast?

John DeSimone ([01:45:47](#)):

And so, I'll try to cover, um, what we think is going on, and there's a wide range of possibilities. But I'll start with the orders from current customers are not materially different than what we expected and what we've seen in the past. The driving force behind the reduction and expectations is from less new, new customers, new distributors.

John DeSimone ([01:46:07](#)):

Now, we've seen this in the past, especially after large periods of growth. So, it's not uncommon in this industry. Um, now, the reasons for that crosses a wide spectrum. It can be because distributors are less active, and we've seen a lot of vacations come up in August, um, there's been a lot of pent-up energy to go away and when you, especially in Europe and North America, you know, o-... a lot of lockdown for long period of time, we've seen a lot of travel, uh, distributors weren't as engaged. And when you look at the biggest drivers of the miss versus expectations, it's the U.S. and EMEA. Um, they represent almost 60% of the, the decline, uh, in July and August from what we expected.

John DeSimone ([01:46:48](#)):

So, it happened pretty fast, so it's possible that there's just a temporary, not necessarily, right, we're not s-... we're not c-... you know, the data on... for this is not yet available. But it's possible that there's just less engagement right now and things can pick up. But there can be, actually the other end of the spectrum, which could be it's just harder to sell 'cause of the, some of the pandemics or, you know, harder to go get new customers. And somewhere across that spectrum is where we see things.

John DeSimone ([01:47:13](#)):

And it depends on markets, right. There were some markets we see lower activity and less lockdown countr-... as, as John Agwunobi said, and opening of the, the COVID restrictions and people traveling and going out to dinner more and people going back to school, physically going back to school. And we see other countries, like Indol- -nesia and Malaysia and even Vietnam where things are getting very restrictive, even more so than they were a year ago. So, it does cross the spectrum.

Eric Monroe ([01:47:37](#)):

Thank you, John. The next question is specific to China. On the last quarter earnings call we reference consistent month over month trends. Did those trends continue in July and August.

Alex Amezquita ([01:47:50](#)):

Uh, I'll take that one, Eric. So, what we're seeing so far in the second quarter is, from expectations, uh, volumes about 10% off of where they were sequentially in the second quarter. So, still in the 30s, in the second quarter we were sort of trending in the mid-30s range in terms of volume, uh, monthly. Uh, so far what we've seen in July and August, uh, and so far this September is, uh, in more of the lower 30 range. So, uh, still consistent, um, a little bit off from our expectation, uh, but there's still a, a, a level of consistency there.

Eric Monroe ([01:48:24](#)):

Thank you, Alex. The next question, um, our press release referenced results for July and August. We are now halfway through September. How are the September sales looking?

Alex Amezquita ([01:48:36](#)):

Yeah, no, that's a good question. So, our guidance, our revised guidance, reflects July and August behavior, but also what we've seen through the beginning of September. So, uh, the trend right now that we're seeing so far, even up to, even (laughs) up to today, is reflective of, uh, what is in our revised guidance.

Eric Monroe ([01:48:56](#)):

Thank you, Alex. Shortly before the guidance revision, the company announced a new U.S. distribution center. Does the change in guidance impact your need for that facility?

John Agwunobi ([01:49:08](#)):

Let me start on that one and then maybe hand it to you. Yeah, so, we have a, a long-term strategy. It's a strategy that's, uh, predicated on growth and we're confident in that long-term strategy. We build to our strategy. And that facility, uh, in the northeast, that new distribution center, um, was, and is, designed to help us meet our expected long-term growth. The issues that we're facing more temporally in this quarter, uh, and, and as reflected in our guidance, uh, those are shorter term issues. Um, but, John, I don't know if you-

John DeSimone ([01:49:42](#)):

Yeah, no, I'll, I'll g- maybe I'll just, uh, also step back a little bit. The, the decision to open up a northeastern DC actually was made in 2019, pre-COVID. So, pre this tremendous, you know, 50% growth we saw in the U.S. And so, even though the U.S. is a little down from what we expected, as Alex said, it's up 30% over 2019, when the decision was made to open the DC. So, the DC was needed in 2019 and it's needed more so now, because the customers we had in the northeast had to wait four days for product and that's just unacceptable in today's environment. So, it's absolutely needed and is still gonna continue.

Eric Monroe ([01:50:16](#)):

Thank you. So, the stock is trading down significantly today. Does this change your outlook or cadence specific to share repurchases and would we explore leveraging up to be more aggressive with regards to share buybacks?

Alex Amezquita ([01:50:31](#)):

Yeah, I'll take that. So, um, so, I, I'm not, I'm not gonna s- discuss any specific strategies in terms of leveraging up, I can't comment on anything of that nature. But I do wanna com-... or, what I, what I do think is important to say is we are committed to the share repurchase program. We've been committed to it, we continue to be. Uh, we've repurchased 76 millions of shares so far in the third quarter and we're gonna continue to do to... continue to do so.

Alex Amezquita ([01:50:54](#)):

The s- stock price levels, uh, even before today are such at a compelling level that it makes sense to, uh, to maximize shareholders' value through share repurchases. So, we'll continue to look for those opportunities, um, uh, i- in the near term and as we continue to, we're on track to continue to deliver on our 200 million, uh, that we committed to at our last, um, uh, earnings call. Um, and, uh, we'll look for other opportunities, uh, should they present themselves.

Eric Monroe ([01:51:23](#)):

Thank you, Alex. The next question, somewhat related to distributor metrics. How does the cohort of customers acquired since the pandemic prepare, uh, compare to the pre-pandemic cohort? Are we still seeing similar or better levels of retention and activity or has this changed?

John Agwunobi ([01:51:43](#)):

You guys wanna-

John DeSimone ([01:51:44](#)):

[crosstalk 01:51:44] I'll take it. Look, uh, um, so, again the, the, the r- the r-... the guidance change has caused almost entirely, not quite entirely, but from a reduction in the number of new coming in, um, more so than a change of behavior of those that have come in. So, we have seen pretty consistent behavior from customers that came in during the pandemic versus customers that came in prior to the pandemic.

John DeSimone ([01:52:05](#)):

Now, the activities rates may have changed a little since that point in time, but it's not material. Uh, again, the driver of what we've seen is just a reduction in less coming right now.

Alex Amezquita ([01:52:16](#)):

Yeah, m- and maybe I can add onto that, Eric. Because I think it's, it's important to give context overall, right. So, I think of a lot of the comparisons have been against 2020, again, against, uh, John D. mentioned a moment, Q3 2020 particularly was just an exceptional quarter with a lot of, um, elevated demand, there was a lot of going on in the world, you had a lot of delayed demand, particularly from ma- markets like in India that was delayed into, uh, um, that, that couldn't really placate demand in the second quarter that was moved to the third quarter.

Alex Amezquita ([01:52:45](#)):

So, we're, we're talking a lot about two-year stack rates and the reason is is because that's kind of a pre- pre-COVID, um, data point and it really looks at the progress we've made over the two years. So, if I th-... if I go back to 2019 and we look, even at our revised guidance, we're adding 200 million to net sales. That's still a two-year stack rate in the mid-teens. The guidance reflects a Q4 in the mid-teens net sales growth. And it reflects a 2021 full year 20%, plus or minus, uh, over 2019.

Alex Amezquita ([01:53:19](#)):

On our foundation, our net, our active sales leaders, they're up 20% from 2019. We talk about our active sales leaders as a, as a proxy for the underlying health of our, of our business and an indicator to the future growth of this company, and that's up 20%. We talked about a reduction in the expected new

distributors and new preferred cump- customers coming into the network, but that's still up 30% from 2019.

Alex Amezquita ([01:53:48](#)):

So, overall, I get it, we have revised guidance, but if we look at the bigger picture, we still look at the overall trajectory of this company and where we're ha-... w- and where we are going, the demand for our nutrition portfolio. That still is all a really positive story in my mind.

John Agwunobi ([01:54:03](#)):

Yeah, and, and just to add to that, um, if you start to... if you listened to the Investor Day presentations, then you start to realize that our best (laughs) days are still ahead of us. There is so much more to come. This is a strategy that we're confident delivers on our long-term goals. Um, there's so much ahead.

John Agwunobi ([01:54:22](#)):

Now, having (laughs) said that, let's not take away from the performance of the company over the last two years. I understand. We, we did have to restate our guidance for Q3 and, and for this full year, but we're still extraordinarily confident in our long-term strategy.

Eric Monroe ([01:54:39](#)):

Thank you, guys. And this next question somewhat builds off of, of that one. Um, you know, we've spoken a lot today about the challenging comparison periods. Can you remind us when the comparison periods get a bit easier? And if we're able to provide an update as to when we may expect to return to year over year growth.

Alex Amezquita ([01:54:58](#)):

So, it's a, it's a little hard to comment on when we're gonna return to year over year growth. We're just at the point now, we don't have '22 guidance out, we have the guidance for 2021. Clearly, this quarter, third quarter 2021, is going to be our most difficult comp. Next quarter and as we move forward, those comps get easier and easier, uh, but, uh, we'll, we'll... when we give 2022, we'll come back and be able to give you more of a, a, an answer to that question.

Eric Monroe ([01:55:26](#)):

Thank you, Alex. So, we'll pivot away from Q3 a bit for the moment and we might return. Um, but more generally speaking, where are we on our global segmentation efforts and what percentage of our global geographies have been segmented?

John DeSimone ([01:55:43](#)):

Yeah, I'll take that. So, uh, just to make sure everybody understands what segmentation is. Historically, anybody who wanted to purchase product directly from the company had to sign up as a distributor. What we've implemented is a second pathway where a distributor can have their customer sign up directly from the company and that customer, who is nothing more than a consumer-

PART 4 OF 5 ENDS [01:56:04]

John DeSimone ([01:56:03](#)):

Ckly from the company and that customer who is nothing more than a consumer can now buy products directly from the company, the distributor gets credit. We call that segmentation, so that's another pathway, uh, for which people can now buy product from the company, but more specifically, it's a consumer, so we can treat that person as a consumer, not as the distributor, so you can now market to that person in a very consumer-centric marketing. Um, so that's what segmentation is.

John DeSimone ([01:56:23](#)):

It started in the US in 2016, later 2016, 2017 is when it started, and there's been a lot of requests from our distributors to roll that out around the world and by the end of this year, so only a few months away, we'll have segmentation in markets that represent right around 80% of our, uh, worldwide sales. So, and next year we'll add another 35 markets next year and we'll sh-, you know, by the, in a couple years will have 100% average, but we have a vast majority of coverage with this program by the end of this year.

Eric Monroe ([01:56:55](#)):

Thanks, John. One more question on segmentation. What specifically will segmentation allow you to do going forward that maybe we couldn't do in the past?

John DeSimone ([01:57:05](#)):

Oh, yeah, I, I, I'll build off a little bit of what I've already said, so segmentation means consumers no-, can now be- buy directly from the company. That consumer data becomes valuable information for which we, the system now can look at behavioral patterns and help distributors determine what their best next, next action is to drive more value from that customer. So the data now, I mean, our distributors, I said this in, in the, in the presentation earlier. Our distributor's single most constraining asset is their time. They, they're almost always single person or two people entities, so when they're trying to determine what to do next and how to sell more products to their current customers that they've generated, it's been very manual. They can look up data, they can figure out th-, but now they have to do work to do it, instead of the system doing the work and artificial intelligence doing the work. By using data and being predictive on the behavioral needs of customers to help create suggestions on how to get more value, so that's one of the key drivers of segmentation.

Eric Monroe ([01:58:00](#)):

Thanks, John. Um, keeping on the topic of digital, what KPIs should investors be monitoring based on what we disclose that reflect the uptake of our digital productivity and our tools, um, being used by distributors that could potentially grow the business?

John Agwunobi ([01:58:19](#)):

Who wants to take that one?

John DeSimone ([01:58:20](#)):

Well, we're talking about disclosure.

Eric Monroe ([01:58:22](#)):

Yep.

John Agwunobi ([01:58:22](#)):

Yeah.

John DeSimone ([01:58:22](#)):

So, it's a disclosure, I'm, um, so when we stop at-, um, look. To me, it's, it's things about segmentation is key. Um, segmentation is direct access for the data, transaction data that will help drive the business and so over time, we're gonna come up with wi-, the right, nah-, we, we, we gave you a lot of information today on, um, purchasing patterns, customer retention, that's key, right? You know, we, it's, it's a, it's a statistic for which we have not disclosed in the past. I think customer retention is a statistics that will start disclosing to investors so they can track our progress from where we are today to the goals we set, um, and I think that will drive a ton of value and you'll see that progress. It will not just be a digital strategy. All the strategies you heard today will still drive new customers coming in, but will have a heavy focus on customer retentions, so that retention figure will, will, I think create enough visibility for investors as to how we're tracking and the value being generated, a lot of which come from digital, but it's not exclusive to digital.

John Agwunobi ([01:59:19](#)):

I mean ultimately, the (laughs) the ultimate KPI is, is sale, right? Um, but as John was saying, that's gonna be driven by a series of metrics that relate to are we successful in our ability to tighten our relationship with customers, uh, in such a way that they become repeat purchasers over time, in such a way that they become a part of our loyal, the loyal community that we're trying to build for them. Um, but more to come on that.

John Agwunobi ([01:59:44](#)):

I mean, our, our digital transformation journey is just beginning. Uh, we're beginning to realize the power, uh, of data, uh, eventually of artificial intelligence and how that is applied to decision making and behaviors in our distributor family. But for now, um, our goal is to try to lay out the framework, um, so that our distributors can become more efficient, more productive, and better relate to their customers.

Eric Monroe ([02:00:10](#)):

Thank you. So, the next question will be for Alex, uh, specific to operating margins. It sounds like we have considerable investment opportunities, such as technology to fund future growth. Can we fund those investments and still generate operating leverage, or is there a period where local currency margins might be under pressure?

Alex Amezcua ([02:00:30](#)):

Uh, 100%. So, we can fund all of the technology investments that we're contemplating, everything that you heard today, everything that we've been talking about, and everything we're contemplating for the future to really sustain this next generation of growth that we see in the business. Uh, in our, in our business, uh, with operating margin, uh, operating leverage in that 20 to 25 basis points that I talked about earlier, uh, that is, that is entirely in, in the forecast, in our long range forecast.

Alex Amezcua ([02:00:57](#)):

Now, on a quarter to quarter s-, uh, basis, on a, maybe even a year to year, might there be some fluctuations? Of course. Uh, but overall, long term as we model this out, the margin expansion is still possible, with all the investments we've been contemplating.

Alex Amezcuita ([02:01:11](#)):

By the way, if you looked at the historical, uh, we saw that margin expansion when we neutralized for China, when we neutralized for FX, we saw that margin expansion, we saw that operating leverage in the business with all of the investments that we've made over the past 10 years, whether that be the Seed to Feed infrastructure, the digital journey that we've been on so far, the Oracle infrastructure that was put in place, all of the things that we've done around compliance to really add to the safety of our business. All of those investments have been made and yet we've still seen the operating margin, um, operating leverage in, in, in the operating margin in the past. So, there's nothing about our current, uh, portfolio of investments that we're thinking about that would take us away from that performance.

Eric Monroe ([02:01:55](#)):

Thanks, Alex. So, we'll pivot now to talk a little bit about our products. Um, can we speak about transitioning weight loss product customers to more ongoing, healthy nutrition customers?

John Agwunobi ([02:02:08](#)):

Yeah, I, I'll hand this off to John in just a second. Uh, just gonna about, to zoom out a bit here. I think it's important to recognize that number one, we're the number one meal replacement, uh, product company in the world. Independent monitors say that about, bout us. Um, we're really proud and we're really strong in our weight management business. It's always gonna be a part of who we are and it will grow.

John Agwunobi ([02:02:33](#)):

We're also extraordinarily excited about the new categories of business, like sports nutrition, uh, that is growing at the fastest rate in all three of our big portfolios, and then of course health and wellness.

John Agwunobi ([02:02:45](#)):

Ultimately, our, our goal through our distributors in building communities, nutrition clubs, other settings, is to help each customer who comes in for whatever reason, have the ability to transition across all three major categories of products. You come in to lose weight. After 90 days, you've achieved your goals, and now you'd begin to transition into a healthy lifestyle that includes more fitness and more sports nutrition and health and wellness products.

John Agwunobi ([02:03:13](#)):

So, um, ultimately, our goal is not to move customers from one category to another, from one product to another, but to keep them in our community as long term customers across all three categories. Customer retention.

John DeSimone ([02:03:26](#)):

Yeah, customer retention's kinda where it's at, I think for this question. Um, what we've seen in the data is that customers that buy health and wellness products, they may buy also, may also buy weight management products, but they buy health and wellness products and/or sports nutrition products have

higher retention rates. And it kinda makes sense if you think of the behavior of a weight management customer, which can sometimes be short term or can be goal-oriented, and you hit your goal and maybe you're not a weight management customer anymore. We don't view it that way but some customers may view it that way. But when you get into health and wellness products or sports nutrition products, it's a lifestyle customer. Um, so the life cycle is longer, so retention goes up.

John DeSimone ([02:04:04](#)):

So what you see from the company is increased focus on launching products in health and wellness and we've got a long way to go, and in sports nutrition, but as we've done those things, you've seen our sales growth in both those categories, w-, not w-, we got weight management, great growth, but then we have health and wellness that's outpaced, uh, weight management and then we have sports nutrition that's dramatically outpaced the other two, so that's the, I think, a continuation of what we expect to do, uh, in the future.

John Agwunobi ([02:04:30](#)):

Obviously once we start applying, um, more of our digital transformation to the market place through our distributors to the customer, we'll, it'll be easier for us to track the movements of customers. Where they are on their journeys between weight management and a healthier, long term lifestyle and we'll then be able to prompt, uh, customers through our distributors so that they're better able, uh, to make that transition from weight management to health and wellness and so forth.

John DeSimone ([02:04:56](#)):

Yeah, I mean, the thi-, I think there's a theme here you're, you're hearing, which is the value of data, right? That data is one of the most important parts of our future. As we capture more and more consumer data, on behalf of the distributors, this is to help our distributors and the customers at the same ti-, and the company, that data will help us achieve our goals and so, segmentation's an important part of capturing customer transactions. POS tool. Important element of cust-, uh, of capturing customer transactions. So, the more data we have, then the more success we can have with using that data to drive retention.

Eric Monroe ([02:05:26](#)):

Excellent. So, we have time for just a few more questions here. Uh, the next topic is nutrition clubs. Have we seen any shifts in nutrition club trends, specifically related to increased numbers of COVID-19 cases?

John Agwunobi ([02:05:43](#)):

Hm, that's an interesting question. C- can you re-, so the question is asking if nutrition clubs ...

Eric Monroe ([02:05:48](#)):

If recent increases in nu- COVID-19 cases have driven any shifts in trends-

John Agwunobi ([02:05:55](#)):

Ah.

Eric Monroe ([02:05:55](#)):

Specific to our nutrition club business.

John DeSimone ([02:05:58](#)):

Um, so w-, in the US we have the most data. I, I'm unfamiliar with any change. I mean, when you look at nutrition clubs, um, nutrition clubs are still performing well. I'm unfamiliar if any of them have added some restrictions that have, um, moved some of their customers to online purchases. I don't see those numbers in a big way changing. If they did, um, I'd know it, so there might be some small changes, but I don't think it's anything material.

John Agwunobi ([02:06:20](#)):

Now, what we have seen is, is behavior, right? We've seen nutrition club operators in the face of lockdowns around the world, uh, take their communities, their nutrition club community, so the people that would come in every morning for breakfast or every afternoon to do their fit challenges or their weigh ins, those customers are now being serviced online. They've moved a lot of their nutrition club activities into online activities. Uh, actually quite successfully around the world. Places like India and others have, have show significant, um, uh, I, actually growth as a part of their transitioning, uh, from in person I-, uh, uh, nutrition clubs that were closed under lockdown to online but clubs, uh, online meeting places.

John Agwunobi ([02:07:04](#)):

Um, so, uh-, I'm not sure if that answers the question.

John DeSimone ([02:07:06](#)):

No, I, I, you know, you made me think of another point I wanna make. So, what we've seen in the US, again, US has got, um, robust data, customer transaction data. When COVID hit and nutrition clubs had to put in a lot of restrictions, we saw their customers, so we knew who their customers were before COVID, we saw those customers s- shift to buying digitally, buying online, becoming preferred customers, and then when the restrictions started to lift and the nutrition clubs started to open again, we saw those preferred customers go back to the clubs. So there's a lot of sustainability with the club metrics and with the club model that we're seeing the metrics.

John Agwunobi ([02:07:38](#)):

Yeah, I mean, it's important that people recognize that, that, and I think John, tha-, that's the point that you were highlighting, that nutrition clubs are a community first. People go to wherever the community is meeting, um, and dep-, and they're flexible and, uh, resilient as it relates to the pandemic and the restrictions that it puts in front of them. They find ways to overcome those restrictions and to have their meetings, to, to, to share their experiences, and ultimately, to buy product.

John DeSimone ([02:08:05](#)):

Yeah, actually, ih-, look. If I, if I'm, again, we, we're kinda building off each other.

John Agwunobi ([02:08:08](#)):

Yep.

John DeSimone ([02:08:09](#)):

You thi-, as, as, uh, certain keywords make me think of, um, some things that maybe that are important for investors, so one of them, the, uh, John, are, uh, we know you mentioned was resilient and resiliency. This is a very resilient model. This company's had, um, a lot of experiences over the last 20 years and more specifically over the last 10, that have driven behavioral shifts in the short term and in almost all cases, those short term behavioral changes revert back to normal and the business grows. It might be more in a step, step approach, but this business model is very resilient. So what we have seen today, we're very hopeful is just short term-

John Agwunobi ([02:08:46](#)):

Yep, yeah.

John DeSimone ([02:08:46](#)):

And we're confident that it's short term because we've seen this play out before, especially after periods of sustained large growth. So, I, uh, just wanted to talk about, again, just remind everybody, I know if you follow the company you know how resilient it is, I just thought it was, uh, a good reminder for investors.

John Agwunobi ([02:09:03](#)):

Uh, it's an, it's an important point, and as we get to the end of the, the Q&A here, it's important that we just know it, that we're extraordinarily, as I've said before, confident in our future, in our strategy, and we see the things that are happening in the midst of this crazy pandemic around the world, the reopenings, the closing, and all of the other stuff in between. We see those as being related to the temporary life that we are all living, uh, at this time. Uh, those things are relatively short term. Our long term propositions, we're very confident in.

Eric Monroe ([02:09:37](#)):

Thanks, John. So, maybe one last question to end on here. How does the company plan to win back investor trust after this guidance revision? Why should investors trust our current guidance?

John Agwunobi ([02:09:50](#)):

I'll let you start and then I'll, I'll jump in.

Alex Amezcuita ([02:09:52](#)):

Yeah, I'll take that, so, so our g- guidance is reflective of the behavior that we've seen in July and August, so that guidance, that behavior, that shift that we've seen is in our Q3, and it's in the rest of our full year. Now, uh, John D., uh, mentioned a moment ago, uh, you know, if some of this is temporary in nature, is there potential upside, of course. But that, that, that upside is not baked into the guidance. What, what's in the guidance is our, is the current, uh, behavior that we have seen in the, for the next, uh, five months, for the next, uh, September, plus, plus Q4.

Alex Amezcuita ([02:10:25](#)):

Um, going forward, and in the future, uh, obviously, the Delta variant has created a lot of ripples around many different markets. John A. just mentioned some of those as some are, are markets we're opening up. Uh, other markets we're closing down, uh, that we're just mention again, uh, impacts on different markets we've seen, how COVID has impacted India, so the benefit of the virtual nutrition club while

other markets, like in Indonesia, is really still reeling from the inability to have in-person nutrition clubs really be able to find a plan b or a plan c for those markets.

Alex Amezcua ([02:10:56](#)):

So, when you go from a market-by-market basis and we think about all of these different ways, we're really factoring that in. It, it, all of our traditional forecasting models really kinda go out the window, we're really taking this on a quarter-by-quarter basis for our short term guidance.

Alex Amezcua ([02:11:14](#)):

Our long term value proposition, I go back to those 2019 stock rates that I mentioned. Our company, the demand for our nutrition portfolio, has never been stronger and I'm confident in our long term growth. We'll come back to you with respect to 22 22 guidance, uh, at the next quarter, but in the short term or I would say the value proposition of this company has not changed. The cash generation of this company has not changed. Our commitment to the share repurchase program has not changed. So all of the, in my mind, the key tenants of our investment thesis are still intact. Yes, we revised guidance down, yes, we had some short term, um, uh, unexpected behavior, but that doesn't change the long term story here. And I think, as we look to the future and as I look, we look to 2022 and beyond, uh, there's incredible amount of value that our channel and this company's going to generate.

John Agwunobi ([02:12:09](#)):

Yeah, I'll just add just a very brief comment that kind of points to the fact that we are going to become the most trusted health and lifestyle company in the world. And we recognize that our relationship with you, the investor, is an important part of the proposition. Transparency, trust, we will always, uh, uphold those qualities. Now, as, as Alex has, has stated, the events that happened during this pandemic, you're living it just like we are. With, uh, the, the, everyone in the world is dealing with this largely crazy time. But we're confident that our resilience, our distributors, our product set, amazingly innovative pro-, and, and a product set that delivers results, we're confident the demand is there, um, the customer is there, the distributors are going to work. We know they will. Um, we're confident that with time this is a, this is something that we will move past and on to our long term strategy.

Eric Monroe ([02:13:09](#)):

Thank you, John.

John DeSimone ([02:13:10](#)):

Yep, well-

Eric Monroe ([02:13:10](#)):

Up-

John DeSimone ([02:13:10](#)):

Okay. I, ih-, that's a great to end it, but I, unfortunately want to go just back to resiliency.

Eric Monroe ([02:13:15](#)):

(laughs) Go for it, go for it. Go for it.

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John DeSimone ([02:13:16](#)):

So, I've been at this company now, um, the longest of the, the, the three of us and this has happened very f-, very infrequently but it's happened in the past, where we had a-, um, to make a revision and we've always bounced back. It's always been a short, intermediate kind of timetable. Because of the resiliency of this model and the resiliency of our distributors who will go back to the activities level they've historically had, so take confidence in the fact that we ha-, we've seen this play out before and we know where it's going.

Eric Monroe ([02:13:48](#)):

Thank you, John, John, and Alex. Uh, that concludes our Q&A for today. So, thank you for joining us. Um, starting September 15th, tomorrow, you can find more information including these presentations on our investor relations website. Thank you all again for attending.

PART 5 OF 5 ENDS [02:20:09]