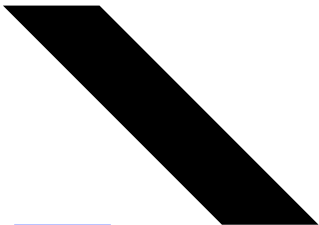


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Q3 2024 HERBALIFE LTD EARNINGS CALL

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- **Stephan Gratziani** *Herbalife Ltd - President*
- **John DeSimone** *Herbalife Ltd - Chief Financial Officer*

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PRESENTATION

Operator

Good afternoon and thank you for joining the third Quarter 2024 earnings conference call for Herbalife Limited. (Operator Instructions) As a reminder, today's conference call is being recorded. I would now like to turn the call over to Erin Banyas, Vice President and Head of Investor Relations to begin today's call. You may begin.

Erin Banyas Herbalife Ltd - Vice President, Head of Investor Relations

Thank you and good afternoon, good evening, everyone. Joining us today are Michael Johnson, our Chairman and Chief Executive Officer; Stephan Gratziani, our President; and John DeSimone, our Chief Financial Officer.

Before we begin today's call, I would like to direct you to the cautionary statement regarding forward looking statements on page 2 of our presentation, and in our earnings release issued earlier today, which are both available under the Investor Relations section of our website.

The presentation and earnings release include a discussion of some of the more important factors that could cause results to differ from those expressed in any forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

As is customary, the content of today's call and presentation will be governed by this language. In addition, during today's call will be discussing certain non-GAAP financial measures, these non-GAAP financial measures exclude certain unusual or nonrecurring items that management believes impact the comparability of the periods referenced.

Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure. And with that, I will now turn the call over to Chairman and CEO, Michael Johnson.

Michael Johnson Herbalife Ltd - Chairman of the Board, Chief Executive Officer

Greetings, everyone, and thank you for joining us on the call today. We reinforced the strength of our financial foundation in the third quarter with both strong cash flows and adjusted EBITDA performance as we continue our journey to grow our sales. Our constant currency sales are basically flat. However, we are seeing positive trends in recruiting as we rebuild the base of our distributors and customers, which is giving us confidence for growth in the future

So let's take a look at our financial highlights, which John DeSimone will talk about more depth later on our call. On a reported basis, Q3 net sales were \$1.2 billion, which is in line with our guidance range. Quarter three adjusted EBITDA of \$167 million exceeded our guidance in our adjusted EBITDA margin is up so 70 basis points versus Q3 of 2023.

We saw strong cash generation in the quarter with operating cash flow of \$100 million. We paid on \$85 billion of debt and further reduced our total leverage ratio to 3.3 times. This is part of our strategy to reduce total debt by \$1 billion in under five years. In today's rapidly changing business environment, we understand the importance of evolving to meet the changing needs of the marketplace.

We've modernized our brand, our business opportunity, and our products we've accomplished a lot and we will continue to establish ourselves as the world's premier health and wellness company, community and platform. Our efforts have resulted in very positive trends, including increased distributor engagement, recruitment, and activity.

New distributors joining our business was up 14% year over year worldwide represented our second consecutive quarter of year over year distributor growth following 12 quarters of recruiting decline. Distributors, as you know are sales growth, consistent increase in recruiting has historically been a sign of future sales growth.

Simply put, bigger sales organization means bigger sales, and we're investing in distributor success in significant new ways. Under Stephan's leadership, we customize our training programs, mobilize our organization to include key account managers, and taken the best ideas from our most successful distributors and shared them with distributors worldwide.

We're also localizing our marketing plan, enhancing our selling opportunities, make it easier for new distributors to get into the business, begin earning money quickly and sustainably grow their businesses. It's going to take a little time to replenish our distributor base and get new distributors fully trained, motivated, active and productive.

But that said, momentum is building, more people attended extravaganzas events worldwide this year versus 2023 and with the support of training programs like the Herbalife Premier League and our new diamond developed Mastermind program were more focused on training than ever before

Mastermind program kicked off in the US and was led by Stephan and supported by network marketing industry leader, Eric Worre. We plan to expand the program to our distributor leaders in Asia Pacific in January with additional markets to follow later in the year.

This new approach to training and support reinforces the significance of bringing Stephan with his years of field experience into the company as an executive. You're going to hear more from Stephan about the trends we're seeing in the initiatives we have underway in just a minute.

Furthering our commitment to our distributors into health and wellness. We've achieved a milestone in our Herbalife lifestyle program for Type 2 diabetes prevention with our first group of distributor leaders becoming certified lifestyle coaches. Herbalife is the only direct seller listed on the CDC national registry of recognized diabetes prevention programs.

These newly trained distributor lifestyle coaches will now be able to offer the program to customers directly and through healthcare professionals. This is a huge step towards enhancing our leadership and our credibility. We are also enhancing our customer offerings by launching products that broaden our portfolio, expand our customer reach and meet market specific needs, and preferences.

In quarter three, we launched a line of Herbalife gels in EMEA, which meet stringent European Food Safety Authority standards. We also launched Herbalife24 prolonged energy gel in EMEA which was formulated alongside world leading sports scientist and is informed sports certified, meaning that it's tested for banned substances.

Just as we believe in investing in the health of people through our products, we strongly believe in investing in the health of our planet through our sustainability initiatives, limiting our impact on the planet is more important to the company, our distributors, and our employees as ever before, it's a principle we all live by.

As an example in quarter three, we transitioned Herbalife24 rebuild strength from a plastic canister to modern packaging design in a pouch format for the EMEA region. The key benefits of this transition include reducing the amount of plastic we use, increasing efficiency due to lighter shipping weight, reducing our overall carbon footprint and promoting some favorability.

This is part of our broader repackaging effort, which you'll hear more about in the future. And as you know, Herbalife24 is designed for peak performance and is trusted by many of the world's best athletes, including superstars to like our own Cristiano Ronaldo.

We just concluded our fueling the best campaign, which culminated with the 2024 Summer Olympics and Paralympics. Individual teams and athletes sponsored Herbalife returned home with 11 medals. The Olympic and Paralympic Committees we sponsored from India, Italy, Greece, Mexico, Israel and Vietnam earned a total of 74 medals.

We're super proud of our global Herbalife athletes and congratulate all of them on their success. We're also really proud of the LA galaxy and our long-term partnership there. In fact, Herbalife is the first and longest running jersey sponsor in major league soccer. And our products are deeply embedded in the nutrition program of the galaxy players. Their performance is because of our products and their will.

Our worldwide distributor community is excited about the playoffs. They're pulling hard for the galaxy and their quest for the MLS Cup. Herbalife was also among the first to recognize the power of women in sports and we have sponsored female athletes and teams for nearly 20 years.

We are better leveraging the sports sponsorships who campaigns like our New Her campaign, which highlights our long time commitment campaign kicked off this month and you can check it out in our US social media channels.

The campaign will launch globally in March of 2025. In conjunction with International Women's Day. Women make up a price roughly 70% of direct selling worldwide, and we want to inspire more women to use our products, join our business and become part of our wonderful community.

Our community of distributors and customers is one of the most powerful aspects of Herbalife to provides us with a unique opportunity to bring people together in person. The power of this community was evident when more than 49,00 Herbalife independent distributors, fitness enthusiasts, and employees came together on September 21 and set a new Guinness World Record title for the largest high intensity interval training class across multiple veterans.

Also more than 11,000 people from all over the world who joined to work out virtually via Herbalife YouTube live stream. While other companies today are looking for ways to eliminate people from their business that Herbalife, we want to bring more people in where inclusive, we believe in the power of all people, and we're providing them with the opportunity to get healthy, make money and join a community. Once they join us, we're doing more than ever to help them succeed.

So let me turn it over to Stephan who will give you more details about how we're doing it.

Stephan Gratziani Herbalife Ltd - President

Thank you, Michael. As Michael highlighted, one of the key areas of our focus since the beginning of the year has been to rebuild and strengthen our base of distributors bigger base, bigger sales. The first step in this process was to successfully reverse the year-over-year declines in new distributor trends we experienced for three years. Today, we are pleased to report our second consecutive quarter of year-over-year growth and a number of new distributors joining Herbalife.

As we look at slide 8, with multiple tables and data, let me summarize the key takeaways. Number one, new distributor growth in Q3 continued across all markets except China, which I'll cover in a minute. Number two, leadership levels show significant year over year increases in recruiting. And number three, our base of active non-sales leaders is steadily improving quarter by quarter.

Let's jump in. The table on the upper left highlights the percentage growth in the number of new distributors by region on both in the quarter to date and a year-to-date basis. Moving to the right side of the slide, you see by marketing plan level, the quarter-to-date and year-to-date percentage of growth in the number of new distributors each of the marketing plan levels are bringing in.

This is a positive sign that our top distributors are leading the way as they have the longest tenure, the largest sales organizations, and know how to support new distributors with the best go-to-market strategies. At the bottom of the slide, we present by quarter the year over year percentage change in the total number of active non-sales leaders, which also includes members and markets without separate distributor and preferred customer programs.

The summary is based on the regional supplemental metrics posted under the Investor Relations section of our website. As you can see in Q1 of 2023, every region, except for APAC was experiencing year-over-year declines in active non-sales leaders. The declining number of total active non-sales leaders was largely due to the extended negative trend in recruiting.

However, as you will see in almost every region there have been quarterly improvements since Q1 of 2023. Overall, the company went from a declining base of active non-sales leaders to a growing base in Q2 and Q3 of 2024.

On this table, I want to draw your attention to North America. For multiple quarters of 26% year over year declines in active non-sales leaders. We have now had two consecutive quarters of near flat declines. While the turnaround is taking longer, the improvements we are seeing in the number of new distributors coming in and the active non-sales leaders trends are highly encouraging. I will talk later about a new initiative we launched in August to further support the North American market.

The overall takeaway from this slide is that consistent growth of new distributors leads to a growing base of non-sales leaders who are the foundation of our business. This foundation leads to new sales leader growth drives customer and distributor growth and ultimately grow sales volume.

As I've mentioned before, one quarter of new distributor growth isn't enough to offset 12 quarters of year-over-year declines. Normal two consecutive quarters of new distributor growth as we just experienced. However, we are encouraged to see that our efforts are starting to pay off just as we have reached the inflection point of our distributor base going from declining to growing, we are confident as we continue this positive momentum that the inflection point to sales volume growth is on the horizon.

Let's talk about China. Over the past year, we recognized the need for a stronger customer focused program to drive sustainable growth. Following the April launch of the Herbal Life Premier League, which was originally focused on acquiring 20 new preferred customers, our China market launched its first ever customer loyalty program in June.

These initiatives prioritized new customer acquisition over new sales representatives resulting in a significant decrease in the number of new sales representatives joining the business in the quarter. We have since modified the qualification for the Herbalife Premier League in China to include both preferred customers and new sales representatives.

Although the decline in new sales representatives contributed to a decline in quarterly sales. We believe our focus on a customer centric strategy will yield long-term benefits, and it is already showing positive initial results. In Q3, we saw 65% increase in new preferred customers compared to Q3 2023. Additionally, the percentage of these customers making purchases has increased significantly compared to last year.

We see China as a major growth opportunity and aim to replicate the results we've had in India where a successful preferred customer program has not only built a solid customer base but also driven high conversion rates of preferred customers to distributors. Pivoting now to training and support programs.

We recently launched the Diamond Development Mastermind program in North America focused on top level leadership in our company. While training has historically been distributor to distributor, which is vitally important, we've embarked on a new company to distributor training and support program, leveraging my experience in the field and with the support of network marketing industry leader, Eric Worre.

This program, which has approximately 800 distributor leaders, participating marks the first ever training of its kind for Herbalife. This is an ongoing program that focuses on mindset, personal and professional growth, business flows, and systems and leadership development.

Other elements of this program include peer-to-peer accountability groups and account management model. This creates a connection and continuous feedback loop that provides insights to align our commercial strategy and support our distributors needs.

The feedback in North America has been overwhelmingly positive and we are seeing a significant increase in the energy and engagement of our participants. The enthusiasm for this program from our distributor leaders is spreading globally. For this reason,

we are accelerating our rollout and in January, we'll be launching the program to most Asia Pacific markets with additional regions to follow later in the year.

This is only one initiative amongst many that we are focused on to deliver on our commitment to return to sales growth. And with that, I'll turn it over to John.

John DeSimone Herbalife Ltd - Chief Financial Officer

Thank you, Stephan. I'll begin with our Q3 financial highlights on slide 10, before getting into more details. Overall Q3 net sales were within our range of expectations, whereas adjusted EBITDA dollars and margins, operating cash flows and debt reduction were all significantly above expectations.

Therefore, given our strong operating performance in the quarter, we are raising our adjusted EBITDA expectations for the year. Looking at some of the details of the third quarter, net sales were \$1.2 billion, down 3.2% versus Q3 of last year.

Reported net sales were negatively impacted by 290 basis points of FX headwinds year-over-year. On a constant currency basis, net sales were nearly flat versus Q3 2023. Our third quarter adjusted EBITDA was \$167 million and exceeded our guidance range of \$125 million to \$155 million. Adjusted EBITDA margin was 13.4%, up 70 basis points versus Q3 of 2023.

Q3 marks yet another quarter of strong operating and cost saving initiatives. CapEx in the third quarter was \$27 million below the low end of our guidance range of \$35 million to \$45 million. A portion of the underspend was due to timing of certain projects being shifted to Q4. In addition, we incurred approximately \$3 million of capitalized SaaS implementation costs in the quarter.

Q3 gross profit margins improved to 78.3%, up 200 basis points compared to the third quarter of last year. The increase in gross profit margin was primarily due to the pricing actions we have taken over the past year which drove approximately 110 basis points of benefit, along with an additional 110 basis points of favorability from reduced input costs, mainly related to manufacturing efficiencies and lower raw material costs.

Unfavorable sales mix and an approximately 30 basis points negative impact on margin year-over-year. Q3 diluted EPS of \$0.46, with adjusted diluted EPS of \$0.57, which included a \$0.10 FX headwind versus Q3 of 2023. Q3 diluted EPS was favorably impacted by approximately \$4 million pretax gain related to the sales of our office building in Torrance, California, which is excluded from our adjusted results.

Our Q3 adjusted effective tax rate was 22.3%, down from 30.3% for the third quarter of 2023, which drove an approximate \$0.06 favorable impact to adjusted diluted EPS. The lower effective tax rate in 2024 was primarily due to changes in geographic mix of income, partially offset by the tax impact of elevated interest expense following our recent debt refinancing. We continue to expect our full year of 2024 adjusted effective tax rate to be approximately 30%.

We have strong cash generation in the quarter. Operating cash flows were \$100 million, which included approximately \$28 million of cash payments related to the restructuring program. In addition, we received net proceeds of approximately \$38 million related to the sales of our current office building in July, which are incremental to the operating cash flows.

We have until the end of November of 2025 to move out of that building, which gives us adequate time to relocate our employees as well as our R&D and quality labs to other office locations in Southern California. We expect to incur about \$8 million of one-time capital cost next year do so. And as Michael noted earlier, we paid down \$85 million of debt in the quarter.

Credit Agreement EBITDA for the third quarter was \$197 million, and our total leverage ratio is down to 3.3 times as of September 30 from 3.5 times at the end of June. For additional details regarding adjustments between adjusted EBITDA and credit agreement, EBITDA as well as the calculation of our total leverage ratio. Please refer to our presentation appendix and the earnings press release.

Turning to slide 11, we see the drivers of our year over year net sales performance. On a reported basis, net sales were down 3.2% year over year and nearly flat on a constant currency basis. Overall volumes declined by 5.4% year over year, leading to an approximately \$70 million headwind, which was partially offset by approximately \$62 million of pricing benefits.

FX was approximately \$37 million headwind year over year or 290 basis points in line with the approximate 300 basis point headwind we anticipated in July. Turning to slide 12, we had the regional net sales results for the third quarter. On a local currency basis, Latin America, India and Asia Pacific all reported net sales growth in the quarter with FX negatively impacting each of these regions on a reported basis.

In Latin America, net sales were down 2% on a reported basis, while up 9% on a local currency basis. Favorable year over year pricing was more than offset by unfavorable FX headwinds, primarily due to the Mexican peso and continued devaluation of the Argentinean peso, with overall volumes in the region relatively flat.

We continue to take real price increases in Argentina to offset the FX headwinds. On a reported basis, Mexico's net sales were down 4% year over year, whereas on a local currency basis, net sales were up 6% year over year, driven by 5.25% price increase in March 2024 partially offset by slightly lower volumes.

It's worth noting the overall impact of the 5% price reduction that most markets in the regions implemented in Q2, excluding Mexico, was not material to the Q3 year over year pricing impact as a majority of these markets, we also instituted price increases in Q1 of 2024. However, we believe the Q2 price changes may have positively contributed to the year-over-year volume increases in several of the markets in Q3 of this year.

EMEA net sales were relatively flat year over year, with local currency net sales up 2% favorable year-over-year Pricing and sales mix impacts were mostly offset by volume declines and unfavorable FX headwinds. Year-over-year results were generally mixed across the markets in the region. In Asia Pacific, net sales were down 1% year over year on a reported basis, while up 1% on a local currency basis.

In India, net sales were up 1% on a reported basis and 3% in local currency, with pricing benefits more than offsetting a slight decline in volumes year over year. In North America, net sales were down 6% year over year, a slight improvement from the Q2 2024 year over year decline versus the second quarter in a row, we have seen improvement in the year-over-year trends.

As Stephan noted in his opening remarks, our new distributor metrics are encouraging and we have several new initiatives in the region that are beginning to gain traction. We believe the gradual improvement is a positive indication of our path back to growth.

China net sales decreased 16% year-over-year and were down 17% on a local currency basis. As Stephan noted, we are seeing a significant increase in the number of preferred customers signing up following the launch of the new customer loyalty program and the Herbalife Premier League, which led to less focus on sales representative improvement.

The China team has made some changes to the Herbalife Premier League qualification requirements during the third quarter to encourage more recruitment of both customers and sales representatives. We continue to be encouraged by the number of new customers joining. However, we need time to observe the customer lifetime earth performance and the flow from PC to sales representative to assess how it will translate to sustainable growth.

Moving to slide 13, we see the drivers of our year over year increase in our adjusted EBITDA. Q3 adjusted EBITDA was \$167 million with a margin at 13.4%, up 70 basis points year over year. Looking at the bridge, the impact of the gross profit margin improvement can be seen in the benefits of price increases and favorable input costs partially offset by lower volumes and sales mix.

Employee bonus accrual continues to be a headwind of around \$16 million year over year and consistent with the expectations we communicated in Q1 of this year. Given the restructuring program and bonus level accrued already as of September, we don't expect additional unfavorable bonus impact in Q4.

Technology costs were up approximately \$5 million year over year, primarily due to increased SaaS hosting fees. Q3 2024 adjusted EBITDA benefited from \$5 million of China's government grant income recognized in the quarter with no similar income in Q3 2023. And as I stated last quarter, we had a large distributor event that took place in the third quarter of this year, which was held in the fourth quarter of last year, driving a \$7.2 million headwind to adjusted EBITDA in Q3 2024, which is included in the other bucket.

Unfavorable year over year FX movements led to an hour approximately \$14 million a year-over-year reduction in adjusted EBITDA. Moving to slide 14, I'll provide an update on our capital structure. During the quarter, we repaid \$85 million of debt, \$5 million of the term loan fee, scheduled amortization payments and \$80 million on our revolving credit facility.

As of September 30, the revolving credit facility was fully undrawn. As I noted earlier, we further reduced our total leverage ratio to 3.3 times as of September 30, and we believe we are on track to reduce our total leverage ratio to 3 times by the end of 2025 following the repayment of the 2025 notes.

In accordance with the terms of our credit facility, we plan to repay at least \$62 million of the 2025 notes by the beginning of March next year with the remainder of the 2025 notes to be paid at or prior to the September 2025 maturity.

Over the next four plus years, we plan to repay \$1 billion of debt, including the \$85 million repaid in the quarter. Moving to slide 15, we will review our outlook for the fourth quarter and full year. For the fourth quarter, we expect net sales to be in the range of up 1% to down 3% year over year. We expect adjusted EBITDA to be in the range of \$105 million to \$135 million.

And our planned capital expenditures for the fourth quarter are in the range of \$25 million to 45 million. In addition, we expect Q4 capitalized SaaS implementation costs to be approximately \$7 million, which is incremental to our planned CapEx. Based on our results through the third quarter and the outlook for the remainder of the year, we have updated our guidance for the full year 2024.

For our full year net sales guidance is now in the range of down 1% to down 2% versus last year. We are raising our expectations for the full year adjusted EBITDA to a range of \$590 million to \$620 million, and we reduced the top end of our capital expenditure range to now be between \$120 million to \$140 million. And one last comment before we move to Q&A.

Herbalife, even with our near-term elevated capital expenditures for technology, continues to generate significant cash flows. And we plan to use these cash flows to reduce debt by \$1 billion over the next four plus years and believe we can accomplish this goal by the end of 2028.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Van Sinderen with B. Riley Securities

Jeff Van Sinderen *B. Riley Securities - Analyst*

Hi everyone, and let me say congratulations on the distributor ads. It's great to see. Wonder if you can provide a little more color on what you're seeing in the underlying drivers related to sales volume in North America. Realize it may be early to get performance out of the new distributors and then maybe speak to what you think needs to happen to turn around the overall sales volumes in the major regions where they're negative. What you think the time frame might be for that to materialize considering the recent distributor has?

Stephan Gratziani *Herbalife Ltd - President*

Yes, Jeff, thank you for that. So now, I think you see on the active non-sales leaders metrics that it's improving quarter over quarter. So that's driven obviously by new distributors growth really that started at the beginning of this year and the last two quarters have been very strong. So this is our first focus, is building the foundation.

And we know that the models that people are using and how important nutrition clubs are for us here in the United States, it's really helping the distributors to adjust their models to be able to be more productive and effective at what they're doing. And so the mastermind, which is one of the initiatives that we've taken is the first time that we've ever taken the level of support with the leaders who are really the ones that have the nutrition clubs.

It's mostly in our top level leadership and actually working with them directly and helping them. And the Mastermind, the first 90 days is really focused on DMOs and making sure that they've got a business flow that brings in more customers, more distributors that have models that duplicate as effectively as possible.

So it's kind of a grassroots with the leadership. There's an overall distributor base that needs to get rebuilt and the focus is on the productivity and making sure that we're supporting them, which is another part of the key account management program is to be in touch with these 800 or so leaders on a weekly, monthly basis and having them have a direct input to the company, sharing what they're experiencing to be able to support them.

So on the general comment, it really is what we presented that we are rebuilding a base and every market, every region has its very specific things that we need to focus on. And we are just going to focus on rebuilding that base, supporting the distributors through all of our programs, implementing new ways, like we're doing with the Herbalife Premier League and with the Mastermind program to support them, just to continue to go out there and grow and be effective at what they're doing.

So in terms of timeline, we as mentioned, we've gotten to a point where the base is not decreasing, it's increasing. The speed at which that's going to increase is going to have a direct impact on how quickly we return to volume growth and sales growth. And really, there's no it's a quarter by quarter, we'll know more next quarter when we get together. Thank you.

Jeff Van Sinderen *B. Riley Securities - Analyst*

Okay, thanks. And then if we could turn to the gross margin outlook for a minute, I'm just wondering what your latest plans are for further price increases. What is kind of the latest you're seeing on input costs? And maybe you can remind us when the year-over-year comparisons might get a little bit more challenging on price and input costs?

John DeSimone *Herbalife Ltd - Chief Financial Officer*

Yes. So just from a general outlook standpoint, gross profit, I don't expect to change the rest of this year from where we are right now nothing meaningful and probably nothing meaningful next year at this point. In terms of price increases, most of the price increases for the year are already done. There's a market or two that's left to do, India's left to do.

And then we'll deal with next year when we roll out our plans a couple of months. We haven't announced anything specific next year. It'll depend on a lot of different circumstances, including whether we roll out some of the South American changes that we've made to other markets and that's very possible.

Jeff Van Sinderen *B. Riley Securities - Analyst*

Okay. And then I'm sorry, anything else to add on import costs?

John DeSimone *Herbalife Ltd - Chief Financial Officer*

No, import costs have been under control. And I suspect they'll say that we're not expecting any material hits from increasing import costs going forward, at least in the near-term.

Jeff Van Sinderen *B. Riley Securities - Analyst*

Okay. Thanks for taking my questions. I'll take the rest offline.

Operator

Chasen Bender, Citi

Chasen Bender *Citi Research - Analyst*

Great. Good afternoon, everyone. Thanks for taking the question. Stephan, I wanted to come back to distributor trends in North America. I mean, obviously you highlighted the new distributor growth, which obviously is a really good sign that you're going to be the top of the funnel and you're working to grow the base.

And frankly, when you look at that active non-sales leader distributor number, the trend has improved sequentially, so certainly making progress. But you look at the absolute numbers, they remain below the numbers of new ads that you're bringing in, which seems to suggest that there's still a little bit of an issue with churn or qualification and retention on that side.

So I'm just curious to get your perspective there. What do you think you can do in terms of addressing the back end of the funnel and kind of closing the gap there besides the reseller at the top? Thanks.

Stephan Gratziani Herbalife Ltd - President

Yes. Thanks, Chasen. So a couple of things. One is, when you're coming off of 12 quarters or three years of decline, what ends up happening is that there's still a bit of attrition in the pipeline, right? So you're playing catch up and you have to kind of filter through that, which I think when you look at, when you're talking about the active non-sales leaders' numbers that's happening, right? You see the sequential quarter over quarter.

Our focus is really to make sure that, and it's very specific obviously to whatever the DMOs and one of the things that we're focused on and becoming even more focused on is the different models that are out there. You have certain people that from a general market standpoint have nutrition clubs, they look a little bit different than the Latin America nutrition clubs, right?

And then you've got people that are working more on challenges or some are working on marathons and there's all these different models. So one of the things that we're doing to really accelerate and support is actually supporting as specific as we can individual market leaders in what they are doing in their market and the models that they're having.

So we do have to get through this basic attrition in the pipeline, which I don't want to speak, but you're seeing it's a sequential improvement quarter by quarter and really to support to accelerate that they're more capable in the way that they're working, to go out there and attract more people, more people to the clubs, more people to whatever way that they're working that translates then into customers to distributors.

And then you see the impact. So the other aspect of that is the distributor base leads to the new supervisor base, right? And supervisors and growing that metric and super more distributors, more supervisors, more customers, incoming more distributors based on the models, right?

And the effectiveness of the models, which ultimately then will impact sales, okay. So this is the process that we've got to go through, we've got to rebuild and to support better than we've been doing in the past and that's what our focus is, and that's why we have many different areas that we're focused on. So I hope that gives a little bit more clarity.

Chasen Bender Citi Research - Analyst

That's helpful color. And just staying on that topic for a minute longer. If I think back to not that long ago, I remember the time when Herbalife had a bunch of new distributors come into the pipe that ended up being a rather unproductive cohort for the company and consequently had to get churned out of the system.

So as I think about what you guys are doing now with the new initiatives in Mastermind in Eric Worre a how should I think about the productivity and new distributors coming to the system now and what's to say that they won't follow, you know some of the -- call it weaker cohorts that we've seen in the past. So just anything that gives you confidence that the people coming in now are going to be productive as opposed to a less productive group. Thanks.

Stephan Gratziani Herbalife Ltd - President

Yes. So it's a great question, Chasen. So this is directly correlated with the effectiveness of the models. And I'll just give you an example, right. So one of the most successful the highest productive, one of the most successful and the highest producing per distributor model that we have going right now is really this breakfast budget club model within the United Kingdom, and I think I've spoken about this before.

Over the last four years, this individual distributor couple honed in on a model documented has it very clear and they've grown [20x] in the United Kingdom, in the same market that other distributors with the same products, the same pricing, the same macroeconomic conditions haven't grown to that extent.

And so their model, because of the effectiveness of the model, the distributors that they bring into the company, their level of productivity, the level that they become sales leaders, and their productivity of sales leaders, and the level of recruiting and acquisition of new customers, it's I don't want to say off the charts, but it's comparable to other people in the same market, different models. There's a huge difference.

And so as we look at here in the United States, right in North America, all of these leaders who are very committed, who are very hardworking, that they need to be supported to be able to understand what is the most optimized model, what are the elements that

people are in other markets and within their own market doing more successfully, potentially, than they're doing to be able to duplicate it, right?

So and I'll just a little bit of a side note, we actually have from the United States about 25 of our leaders going to the United Kingdom for the master class that's coming up. I believe it's this weekend to participate to be able to get the knowledge come back.

So as a company overall, we want to be a platform for delivering the education, the support, so that people, no matter where they are can understand what are the most successful models and why, and then be able to implement those models in their own individual business and that impacts the productivity.

Chasen Bender *Citi Research - Analyst*

Got it. That's helpful. Thanks so much and I'll pass it on.

Stephan Gratziani *Herbalife Ltd - President*

Thank you.

Operator

Hale Holden, Barclays

Hale Holden *Barclays - Analyst*

Hi, good evening. Congrats on the Guinness World Record. I just had two quick questions, or I guess your second Guinness World Record. The first one is, John, the commentary in the deck around creating an internal bank and having no repatriation cash taxes, does that change the amount of cash on the balance sheet that you ultimately have to hold going forward?

John DeSimone *Herbalife Ltd - Chief Financial Officer*

Yes. It's designed to reduce the amount of cash we have to hold. We got it as low as I think \$370 million last quarter, we're a little bit longer now. There's a little bit more room to go that we can take it down. I'm not ready to commit to what that number is. Just let you know there's a little bit more room. The internal bank allows us to keep less cash per country by centralizing it least around certain countries.

And the other key point is, there's not a lot of friction with repatriation, a lot of it's just timing. And so we wanted to make sure that as you look at our cash balance, no matter where it is, that's about the value we will ultimately get from that cash at this point.

Hale Holden *Barclays - Analyst*

Okay. And the second question was, can you guys just talk through the decision to not report India as a standalone geography anymore?

John DeSimone *Herbalife Ltd - Chief Financial Officer*

We've never reported as a standalone geography. It's always been part of the APAC. Talk about the bigger countries in each region as we go through the regions just like North America's biggest country is the US. So we'll talk about the US. And that's just standard, but we've never had at least that I'm aware of in my 17 years here as a region.

Hale Holden *Barclays - Analyst*

Got it. Well, maybe if you guys could just talk about some color on how India is doing and any go forward thoughts there?

John DeSimone Herbalife Ltd - Chief Financial Officer

Yes. I mean just to repeat what was in my opening comments, net sales were up 1% and local currency net sales were up 3% in India. I'll pass it to Stephan for the commentary.

Stephan Gratziani Herbalife Ltd - President

Yes, Hale. So seven years of growth, six of those in double-digits, high-double-digits in many of those years. We're not expecting that that type of growth is going to continue. So I will say that the markets, the focus leaders, they are continuing to build Q3. They had a 30% increase in new distributors coming in over last year. So the focus is in the right area. It's just we're not expecting the same type of growth that we've had. The scale of the market is much bigger than it was five or six years ago.

Hale Holden Barclays - Analyst

Great. Thank you very much.

Operator

John Baumgartner, Mizuho securities.

John Baumgartner Mizuho Securities USA LLC - Analyst

Good afternoon. Thanks for the question. Maybe first off, just picking up on that line of questioning and sticking with the focus on developing markets, the distributor growth is encouraging, but how do you think about the downside risk to demand from the macro factors?

With prices having increased, borrowing costs having settled at higher levels, I think the volume points in India are down a bit here in Q3. A number of the markets in Asia also still seem soft. Are there any specific factors that you're watching that influence demand more than others that you're following into 2025?

Stephan Gratziani Herbalife Ltd - President

Thanks, John. I'll take that. So I'm going to speak from a distributor that had experience for 32 years in the market. There's no question that the macroeconomic situation is important. But from a distributor standpoint, it really is about the value that you're bringing through the products and whatever services that you're giving, right? And it's about how you position, it's about the customer experience, it's about the opportunity and how you've developed your specific model to go out there and show that there's value.

And I'll just give you an example, like just a simple example. If I were to say, look, buy my products, it's a shake and there's some supplements and you can take it twice and you're going to lose weight, do it twice a day, it's really, really great. There's value there.

If I say to you, and when you buy these products, let's say for \$150, not only are you going to get the products, but you're going to get my personal coaching we're also going to be evaluating what your daily diet is like and your meal plan.

You can also come down to my club three times a week where we do workouts. We're also going to put you on a body composition machine and we're going to be able to analyze directly the impact on you. And we've got a support group, which is taking place. And by the way, in the future, you'll be able to all of your biometrics are going to be directly inputted into a customer platform. You're going to be able to track; your coach is going to be able to support you.

All of a sudden, that \$150, its becomes much more worth it because there's more value there. So I think as a company, when we look forward, how can we deliver more value and how can we support our distributors to deliver more value? So yes, there's an impact. If people have less money to spend, they're going to look where they're going to spend it. It's our job and the distributor's job to deliver as much value as possible embedded in the marketplace.

So we're looking at this from all angles. And again, I'll just go back to the example of the United Kingdom. You've got the distributor, couple that developed a model that delivers extreme value to people, and they've taken a business from 50,000 volume points a month to over 1.1 million over the last five years. Same macroeconomic situation, same product, same pricing. The differences in the model and the value that they're delivering.

Michael Johnson *Herbalife Ltd - Chairman of the Board, Chief Executive Officer*

Let me also add, we had this test and had this test in South America or Latin America, where we actually lowered prices, changed volume points did a handful of other things that has been received really wrong. The reason is that much of our global business opportunity economics were identical regardless of which country you were in, and they weren't optimized based on the socioeconomic climate in the marketplace.

And what we're learning with this test is we can drive more value to our distributors and distributors therefore sell more volume by having locally adapted elements of the business plan. And some of that may go into Asia, may go into some other countries next year that I think can help offset some of the macro conditions we're seeing.

John Baumgartner *Mizuho Securities USA LLC - Analyst*

Okay. Thanks for that. And then in terms of North America, can you update us a little bit more on the diabetes prevention program? I think you noted in the prepared comments about the first group has become lifestyle coaches. And I'm curious how that certification process went, how you think about converting additional distributors going forward and then with this first cohort, how you're expecting the engagement with the consumer participants in the program.

Stephan Gratziani *Herbalife Ltd - President*

So John, we have these top level President team members that have gone through a third party program to get certified. Over the next year, the company will become certified trainers and be able to actually extend that certification through an internal program to literally thousands of people if we want to do that. So there's a scalable aspect here.

What distributors do with it and how they're going to put it into their businesses, it's really going to be up to them. We're going to support them, obviously, but there's many different types of people that are focusing on different things in their business.

So we see this foundationally as something that's very important, from a credibility program, education standpoint, how it gets translated into the DMOs, are you going to have some people at their clubs, they're going to offer the program and they're going to have groups of people coming in, others will do it online. So we'll see how that plays out. It's very early days for us, but we believe this is going to play an important role throughout the next couple of years.

John Baumgartner *Mizuho Securities USA LLC - Analyst*

Thanks, Stephan.

Stephan Gratziani *Herbalife Ltd - President*

Thanks, John.

Operator

Linda Bolton-Weiser, D.A. Davidson.

Linda Bolton Weiser D.A. Davidson & Co. - Analyst

Yes. Hello, thank you. I was wondering if maybe you could give a little more color on China. I mean, the numbers were quite a bit worse than we had expected. And I know you talked about the different things being done there, but is it just the macro that kind of made it so much worse or I mean, kind of maybe you can just talk a little bit more about that area? Thanks.

Stephan Gratziani Herbalife Ltd - President

Yes. Thank you, Linda. I'll talk about this. So as John just mentioned adapting to the markets based on obviously the macro and when we look at China, what we really started to focus on at the beginning of last year was really having a customer centric strategy. Because when we look at some of the most successful companies there in our industry, by the way, some of them 10 times bigger than we were or are. We really saw that they were very strong on a customer program, and so we put our sights on that.

It's one of the reasons why when we launched the Herbalife Premier League there we focus on customers instead of distributors. But more importantly, the company has launched a customer loyalty program for the first time in June. So you have to imagine in all the years we've been there, we've never had a customer loyalty program and the way the customers there had, they didn't really have a benefit for becoming a preferred customer.

So we created incentives, a point system and again this is looking at other companies and what they were doing successfully. So the launch of this program really created a behavior in the business that created that 65% increase of new preferred customers that came in Q3 over last year.

And so it also started to impact in the quarter, the number of purchasers, including the sales representatives and the preferred customers and we had a 3%, 4% increase in purchasers. And so as we look to the future, as we look at the continuation of building this business of customers in a 1.4 billion population market and this is just really one quarter that we've been focused on this and we launched the program, we see that there's a lot of upside here for us.

And so that, yes, did it take some emphasis off the sales representative recruiting, it did. We're not going to deny that there was an impact on volume, but long term from a strategy standpoint, we believe it's the right strategy. So it's just going to take time to over the quarters implement this strategy and there will be some adjustments that we're going to have to do. This is a new area for us.

The one thing I just want to point out in what I mentioned is that the bigger the customer base, and this has been part of India's success is that they've created this huge customer base and they've got a very effective way of bringing from customers new distributors or new sales representatives, the equivalent in India and that helps also to build a bigger business. So we think all of these aspects are great for us in the future.

Linda Bolton Weiser D.A. Davidson & Co. - Analyst

Thanks. And then can you talk about the cost savings program that you have and I know some of that was being reinvested? Can you just kind of update us on what you realized through the nine months of 2024 and then what's the incremental savings that we're expecting for 2025? Thanks.

John DeSimone Herbalife Ltd - Chief Financial Officer

Hey Linda, so obviously, you've seen our margin performance which has been very strong. A lot of that has come from not just the restructuring, delayer management, but also a general policy position across the Board, across a lot of categories. And there's still a lot more work to do. The commitment we've made publicly to this point we made at the end of the first quarter in our May earnings call, we said, at that point in time that our EBITDA margins for 2024 this year would be above flat last year and that next year would be 100 basis point improvement.

We're actually getting most of that 100 basis point improvement this year. So there'll be some incremental next year. We'll talk more about exactly what that means when we give guidance next year in the next call. But as of now, we're obviously accelerating some

of those cost savings. And you said it's going to the bottom line, so it's not something where you have to wonder if it's going to happen. You're already seeing it happen.

Linda Bolton Weiser *D.A. Davidson & Co. - Analyst*

Okay. So is there any possibility that there's finding more savings or introducing an ongoing productivity program such that you can still get kind of meaningful savings in 2025?

Stephan Gratziani *Herbalife Ltd - President*

We are still implementing the cost savings program in a couple of areas that can drive savings in 2025. Until we give guidance, I'm not going to commit to how much that falls to the bottom line versus reinvesting in the business. We'll provide guidance for next year, like we said, in February, as we always do.

I will tell you that we'll at least hit the commitment we've made publicly already that we made a couple quarters ago about the 100 basis point improvement over what was expected to be margins that were going to be filed last year.

So that implies we have at least 100 basis point improvement next year over 2023. That's the minimum commitment. That's what we're going to talk about now and we'll give you an update in a few months as to any incremental cost that we find. But there are active cost saving programs we're working on besides the restructuring.

Linda Bolton Weiser *D.A. Davidson & Co. - Analyst*

Okay. And then my final question just has to do with gross margin. The mix impact, I think you said was negative on gross margin. I guess that's country or region mix or something. But can you just remind us what would be the driver of that? Is that China being down so much and China's a higher margin. If you could remind me like what the mixed factors are? Thanks.

Stephan Gratziani *Herbalife Ltd - President*

Well, China's one for sure. All right. China has high gross margin, not so much higher operating profit, but has higher gross margin. So that would be a bigger like driver. Then it's just a matter of which country. So India, of course, has lower gross profit than the company average. So those are probably the two big drivers.

There's other nuances based on where the product's made, if it's dollar manufactured versus sold in currencies that have weakened. But the single biggest driver would be China is, because that is a meaningfully higher gross profit margin.

Linda Bolton Weiser *D.A. Davidson & Co. - Analyst*

Okay. Thank you very much.

Operator

Karru Martinson, Jefferies.

Karru Marttison *Jefferies - Analyst*

Good afternoon. Is it by imagination or we're seeing a lot more new product launches? It feels like every quarter that's coming in and how are the ones that we rolled out like the vegan and the clean labeling and everything performing to date?

John DeSimone *Herbalife Ltd - Chief Financial Officer*

Well, yes, this is John. I'll take that. So I think we've consistently launched a lot of new product. Maybe we're just highlighting it, talking about it more on these calls than we have in the past. It is an important part of our strategy. I think it's important to realize when we launch new product, it's a slow build. And I say that in comparison to some other companies that get this big pipeline when they launch a new product, we don't get the big pipeline.

And I actually think that's the strength of our model is that it's a slow build. Some of this big pipeline comp every year. And so the vegan line sold out initially. It's not a huge seller for us, but it's great for our brand and it does bring in incremental customers that otherwise would not have participated in our brand, and like the gels we just launched, I think those are going to do well. But it's in the early days.

So when it comes to like modeling our business, you don't have to comp these big pipelines for new product launches, and maybe that's important thing. But just know there will be a steady stream of new products coming out every quarter for years that's an important part of our growth strategy.

Karru Marttison Jefferies - Analyst

Okay. And then with the new products, when we look kind of to the volumes, is the volume turnaround truly just dependent on we need to get the distributors up or is it a productivity of the existing distributor fleet that you have?

John DeSimone Herbalife Ltd - Chief Financial Officer

Well, I mean, it's a little bit of everything, okay? I mean so there are different ways to grow sales, right? You can have more people selling. The people that are selling, you can have higher productivity. Their higher productivity can come from them getting more customers or them having higher productivity from their current customers.

We are focused on each one of those things. But we are more focused in the short term on generating new sellers because that has the greatest reach and it's the quickest way to rebuild the foundation that Stephan is talking about, which is why you've seen a big emphasis put on that. But it's not at the detriment of these other programs. We're looking to do each and every one of those elements.

Karru Marttison Jefferies - Analyst

And just lastly, on the inputs, the declining inputs was a nice tailwind for your gross margin. Is there any competitive response or something that we should look at in the sense that the pricing that we have is just not sustainable if inputs keep coming down?

John DeSimone Herbalife Ltd - Chief Financial Officer

Well, they only came down slightly. So the biggest benefit in gross profit was actually better efficiencies within our own plants. So last year, there was a huge program to reduce inventory because in reaction to the sales performance last year, and so that reduction in inventory shut our factories way down and gave us a lot of unfavorable manufacturing variances last year.

This year, that's turned around, right? Sales have stabilized and inventory is getting built back up and the factories have been running, and that was the single biggest impact within the cost side, not talking about price, but in the cost side was more what's happened in our factories.

The input costs only came down slightly last quarter, or third quarter of last year was a real high point. So I don't expect big price decreases on input. I also don't expect big price increases or decreases actually on input. So I just think what we have right now is pretty consistent with what we expect to have next year without any meaningful changes.

Karru Marttison Jefferies - Analyst

Thank you very much. Appreciate it.

Operator

William Reuter, Bank of America.

Rob on behalf of William Reuter, Bank of America

Hi, good evening. Thank you for taking our question. This is Rob on for Bill. So I guess, the first question for us obviously encouraged you to see you guys repaying debt. What are your plans and maybe pacing of this moving forward and maybe any thoughts other than the 25s in terms of what you'd like to address? Thank you.

John DeSimone Herbalife Ltd - Chief Financial Officer

Yes, sure. So obviously the 2025s are the first priority, and that takes us through September of next year. And then the question is, as we generate cash, beyond that, how do we further paydown debt. There are some penalties to paying it down early in 2026, but we'll probably look to do that or maybe refinance. I think, given the trajectory of our margins, I know sales on a reported basis were down slightly, but on a constant currency basis it was flat. So I think sales are stabilized. Hopefully, the inflection comes next year and we start growing.

Our margin profile is much stronger than it was. Maybe refinancing 2026 and have a little more flexibility to paydown with our penalty. So that's some broad. Strokes on up thinking. I think our ability to paydown the billing between now and the end of 2028, which is the goal that I announced in the monologue, that doesn't require a lot of changes from where we are today.

It's basically about kind of the cash flow we generate today with the exception of the severance cost of the restructuring and then any savings on interest as we go forward also gets used to paydown debt. And I think that we can get to that building just with those kind of key assumptions going forward.

I also think CapEx, even though a reduction in CapEx isn't in the models to paydown debt by 2028, they are going to come down after 2025. So I actually think our ability to pay it down from a cash flow generation standpoint is reasonable between now and 2028.

The mechanism for which we do it will depend on the circumstances in 2026 based on whether we can refinance something, a penalty to paydown early, or whatever the economics are, we'll do whatever the best economics are for us at the time based on the circumstances.

Rob on behalf of William Reuter, Bank of America

Understood. Thank you. That's very helpful. And in that response, it kind of sounded like you were thinking about reducing CapEx after 2025, is that correct? And I guess maybe if you could discuss maybe any plans kind of going forward in terms of CapEx that would be super helpful.

John DeSimone Herbalife Ltd - Chief Financial Officer

Yes. So next year, we still have some more tech spend to invest in that will come down significantly in 2026 and we have some manufacturing projects that are coming online for some packaging changes and things and that will come down after next year too. So I think, next year we haven't guided for next year, but I think it's been previous communications where we said 2026 will be below 2025. And I just want to reiterate that that is consistent with what I'm right thinking we think 2026 will be below 2025 and below 2024.

Rob on behalf of William Reuter, Bank of America

Understood. Thank you very much. I'll pass it on.

Operator

Thank you. Ladies and gentlemen, at this time, I would now like to turn the call back over to Michael for closing remarks.

Michael Johnson *Herbalife Ltd - Chairman of the Board, Chief Executive Officer*

Thank you, and thanks everybody for your questions. Thanks for being with us in this quarter. John gives me a set of notes. Stephan and I sit down and go through them, just talking points for the quarter three we just had our Board Meeting. I'm looking at these and I'm thinking about your questions and I'm looking at quarter three 2024 net sales in line with expectations, the decline of the decline in the sales is narrowing and we're pretty excited about that because we see positivity coming into this, net sales yearly flat year on year.

Quarter three adjusted EBITDA exceeded guidance. Adjusted EBITDA margins up 13.4%. All good news. We've raised our 2024 adjusted EBITDA expectations. Great news, strong cash generation. Solidifying the company's position net cash provided by operating activity is \$100 million. We've repaid \$85 million in debt revolving credit facility fully undrawn as of September 30, excellent, this total leverage ratio reduces in my wheel house I love this 3.3 the end of September, we're going to lower it even more.

New distributors this is key. This is the key, we've got 14% increase year-on-year worldwide. It's the second consecutive quarter of year on year improvement. We're building our and rebuilding our distributor base stronger.

Stephan and Eric and the team are out there training and working with these distributors. We have cited in distributors who are growing their business who are interested to come into high level training in this company to further their business, pulling the best ideas from distributors worldwide. Adding Stephan and Eric into this mix and motivating and generating opportunity for more distributors than ever before.

We've got something really special in Herbalife. I've always believed that we've been through a little bit of a downturn. We see that coming to an end very, very soon. I wish I could give you a number, a moment in time and say, magic will happen. But this is going to take a little bit of time to rebuild this.

Our category, yes, it's a tough one, but we believe in it strongly. We watch people. It's funny, I was driving in this morning, and two Waymo cars were next to me driverless. So many companies are trying to figure out how to get people out of their business.

We're trying to figure out how to get more people in, build more opportunity in people's individual lives for health and nutrition, opportunity and wealth and wealth building. Those are never going to go away. I don't care if it's driverless. I don't care if it's an automated warehouse.

At Herbalife, we want more people in our mix, building communities, helping people get healthier. We believe in this model wholeheartedly. It isn't going anywhere. We're going to get stronger and better at it. We got a great management team. We've got a great group of distributors.

Our customers know who we are, love us. They see their lives transform and get better. We just got to get wider and bigger with our mission. We know what the challenges are. We're here to accomplish this company's strength and build it, better every single day. So wouldn't it be me if I didn't say it, let's grow, let's go Herbalife. Thanks, guys. See you next quarter.

Operator

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

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