

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2021

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-32381

**HERBALIFE NUTRITION LTD.**

*(Exact name of registrant as specified in its charter)*

**Cayman Islands**

*(State or other jurisdiction of  
incorporation or organization)*

**P.O. Box 309  
Ugland House  
Grand Cayman  
Cayman Islands**

*(Address of principal executive offices)*

**98-0377871**

*(I.R.S. Employer  
Identification No.)*

**KY1-1104**

*(Zip code)*

**(213) 745-0500**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class:</u>	<u>Trading Symbol(s):</u>	<u>Name of each exchange on which registered:</u>
Common Shares, par value \$0.0005 per share	HLF	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of registrant's common shares outstanding as of October 26, 2021 was 112,132,940.

## TABLE OF CONTENTS

	Page No.
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	
<a href="#">Financial Statements</a>	3
<a href="#">Unaudited Condensed Consolidated Balance Sheets</a>	3
<a href="#">Unaudited Condensed Consolidated Statements of Income</a>	4
<a href="#">Unaudited Condensed Consolidated Statements of Comprehensive Income</a>	5
<a href="#">Unaudited Condensed Consolidated Statements of Cash Flows</a>	6
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	7
<b>Item 2.</b>	
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	34
<b>Item 3.</b>	
<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	57
<b>Item 4.</b>	
<a href="#">Controls and Procedures</a>	59

## **PART II. OTHER INFORMATION**

<b>Item 1.</b>		62
<a href="#">Legal Proceedings</a>		62
<b>Item 1A.</b>		62
<a href="#">Risk Factors</a>		62
<b>Item 2.</b>		84
<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>		84
<b>Item 3.</b>		84
<a href="#">Defaults Upon Senior Securities</a>		84
<b>Item 4.</b>		84
<a href="#">Mine Safety Disclosures</a>		84
<b>Item 5.</b>		84
<a href="#">Other Information</a>		84
<b>Item 6.</b>		84
<a href="#">Exhibits</a>		84

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HERBALIFE NUTRITION LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2021	December 31, 2020
<i>(in millions, except share and par value amounts)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 678.2	\$ 1,045.4
Receivables, net of allowance for doubtful accounts	85.9	83.3
Inventories	559.8	501.4
Prepaid expenses and other current assets	203.1	145.7
Total current assets	1,527.0	1,775.8
Property, plant, and equipment, at cost, net of accumulated depreciation and amortization	411.8	390.2
Operating lease right-of-use assets	218.5	222.8
Marketing-related intangibles and other intangible assets, net	317.8	313.3
Goodwill	96.4	100.5
Other assets	281.5	273.5
Total assets	<u>\$ 2,853.0</u>	<u>\$ 3,076.1</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 98.9	\$ 88.7
Royalty overrides	346.9	358.2
Current portion of long-term debt	29.6	22.9
Other current liabilities	563.2	657.5
Total current liabilities	1,038.6	1,127.3
Long-term debt, net of current portion	2,733.1	2,405.5
Non-current operating lease liabilities	200.3	206.7
Other non-current liabilities	214.4	192.7
Total liabilities	4,186.4	3,932.2
Commitments and contingencies		
Shareholders' deficit:		
Common shares, \$0.0005 par value; 2.0 billion shares authorized; 102.9 million (2021) and 120.1 million (2020) shares outstanding	0.1	0.1
Paid-in capital in excess of par value	312.1	342.3
Accumulated other comprehensive loss	(204.8)	(182.2)
Accumulated deficit	(1,111.9)	(687.4)
Treasury stock, at cost, 10.0 million (2021) and 10.0 million (2020) shares	(328.9)	(328.9)
Total shareholders' deficit	(1,333.4)	(856.1)
Total liabilities and shareholders' deficit	<u>\$ 2,853.0</u>	<u>\$ 3,076.1</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE NUTRITION LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	<i>(in millions, except per share amounts)</i>			
Net sales	\$ 1,430.9	\$ 1,521.8	\$ 4,484.8	\$ 4,131.1
Cost of sales	305.2	322.7	942.7	841.2
Gross profit	1,125.7	1,199.1	3,542.1	3,289.9
Royalty overrides	450.0	463.1	1,409.8	1,251.2
Selling, general, and administrative expenses	486.3	529.7	1,498.9	1,559.5
Other operating income	—	(0.6)	(16.4)	(13.0)
Operating income	189.4	206.9	649.8	492.2
Interest expense, net	37.7	35.2	112.0	89.0
Other expense, net	—	—	24.6	—
Income before income taxes	151.7	171.7	513.2	403.2
Income taxes	34.3	33.6	104.2	104.4
Net income	<u>\$ 117.4</u>	<u>\$ 138.1</u>	<u>\$ 409.0</u>	<u>\$ 298.8</u>
Earnings per share:				
Basic	\$ 1.11	\$ 1.07	\$ 3.81	\$ 2.21
Diluted	\$ 1.09	\$ 1.04	\$ 3.73	\$ 2.17
Weighted-average shares outstanding:				
Basic	105.5	129.2	107.3	135.0
Diluted	107.8	132.5	109.8	137.8

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE NUTRITION LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	<i>(in millions)</i>			
Net income	\$ 117.4	\$ 138.1	\$ 409.0	\$ 298.8
Other comprehensive (loss) income:				
Foreign currency translation adjustment, net of income taxes of \$(0.6) and \$0.7 for the three months ended September 30, 2021 and 2020, respectively, and \$0.9 and \$(4.1) for the nine months ended September 30, 2021 and 2020, respectively	(14.5)	19.5	(25.8)	(20.4)
Unrealized gain (loss) on derivatives, net of income taxes of \$— and \$(0.1) for the three months ended September 30, 2021 and 2020, respectively, and \$— and \$(0.4) for the nine months ended September 30, 2021 and 2020, respectively	2.0	(3.1)	3.2	3.2
Total other comprehensive (loss) income	(12.5)	16.4	(22.6)	(17.2)
Total comprehensive income	<u>\$ 104.9</u>	<u>\$ 154.5</u>	<u>\$ 386.4</u>	<u>\$ 281.6</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE NUTRITION LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Nine Months Ended	
	September 30, 2021	September 30, 2020
	<i>(in millions)</i>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 409.0	\$ 298.8
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	80.1	74.3
Share-based compensation expenses	42.3	37.9
Non-cash interest expense	22.4	19.7
Deferred income taxes	2.9	10.5
Inventory write-downs	16.9	10.6
Foreign exchange transaction loss	10.5	14.3
Loss on extinguishment of debt	24.6	—
Other	1.0	2.1
<b>Changes in operating assets and liabilities:</b>		
Receivables	(6.7)	(37.6)
Inventories	(92.2)	(26.6)
Prepaid expenses and other current assets	(68.1)	(31.0)
Accounts payable	11.8	22.6
Royalty overrides	(1.7)	55.3
Other current liabilities	(86.2)	74.2
Other	8.3	(9.0)
Net cash provided by operating activities	374.9	516.1
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment	(104.5)	(75.6)
Other	(4.4)	0.1
Net cash used in investing activities	(108.9)	(75.5)
<b>Cash flows from financing activities:</b>		
Borrowings from senior secured credit facility, net of discount	531.1	30.2
Principal payments on senior secured credit facility and other debt	(416.0)	(15.9)
Proceeds from senior notes	600.0	600.0
Repayment of senior notes	(420.7)	—
Debt issuance costs	(8.4)	(7.8)
Share repurchases	(909.2)	(844.2)
Other	3.2	2.6
Net cash used in financing activities	(620.0)	(235.1)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(13.0)	(10.1)
Net change in cash, cash equivalents, and restricted cash	(367.0)	195.4
Cash, cash equivalents, and restricted cash, beginning of period	1,054.0	847.5
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 687.0</u>	<u>\$ 1,042.9</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

**HERBALIFE NUTRITION LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Organization**

Herbalife Nutrition Ltd., a Cayman Islands exempted company with limited liability, was incorporated on April 4, 2002. Herbalife Nutrition Ltd. (and together with its subsidiaries, the “Company” or “Herbalife”) is a global nutrition company that sells weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products to and through a network of independent members, or Members. In China, the Company sells its products to and through independent service providers and sales representatives to customers and preferred customers, as well as through Company-operated retail platforms when necessary. The Company sells its products in six geographic regions: North America; Mexico; South and Central America; EMEA, which consists of Europe, the Middle East, and Africa; Asia Pacific (excluding China); and China.

**2. Significant Accounting Policies**

*Basis of Presentation*

The unaudited condensed consolidated interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission’s, or SEC, Regulation S-X. Accordingly, as permitted by Article 10 of the SEC’s Regulation S-X, it does not include all of the information required by generally accepted accounting principles in the U.S., or U.S. GAAP, for complete financial statements. The condensed consolidated balance sheet as of December 31, 2020 was derived from the audited financial statements at that date and does not include all the disclosures required by U.S. GAAP, as permitted by Article 10 of the SEC’s Regulation S-X. The Company’s unaudited condensed consolidated financial statements as of September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020 include Herbalife Nutrition Ltd. and all of its direct and indirect subsidiaries. In the opinion of management, the accompanying financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s unaudited condensed consolidated financial statements as of September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, or the 2020 10-K. Operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

*Recently Adopted Pronouncements*

In August 2018, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2018-14, *Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The amendments in this update are effective for reporting periods beginning after December 15, 2020, with early adoption permitted. The adoption of this guidance during the first quarter of 2021 did not have a material impact on the Company’s condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU simplifies the accounting for income taxes by eliminating some exceptions to the general approach in the FASB Accounting Standards Codification, or ASC, Topic 740, *Income Taxes*, and clarifies certain aspects of the existing guidance to promote more consistent application, among other things. The amendments in this update are effective for reporting periods beginning after December 15, 2020, with early adoption permitted. The adoption of this guidance during the first quarter of 2021 did not have a material impact on the Company’s condensed consolidated financial statements.

*New Accounting Pronouncements*

In August 2020, the FASB issued ASU No. 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. This ASU simplifies the accounting for convertible instruments by eliminating certain accounting models, resulting in fewer embedded conversion features being separately recognized from the host contract, and also amends the guidance for derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. Additionally, the amendments in this ASU affect the diluted EPS calculation for convertible instruments. It will require that the effect of potential share settlement be included in the diluted EPS calculation when a convertible instrument may be settled in cash or shares; the if-converted method as opposed to the treasury stock method would be required to calculate diluted EPS for these types of convertible instruments. The amendments in this update are effective for reporting periods beginning after December 15, 2021, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its condensed consolidated financial statements.

### Revenue Recognition

The Company's net sales consist of product sales. In general, the Company's performance obligation is to transfer its products to its Members. The Company generally recognizes revenue when product is delivered to its Members. For China independent service providers and for third-party importers utilized in certain other countries where sales historically have not been material, the Company recognizes revenue based on the Company's estimate of when the service provider or third-party importer sells the products because the Company is deemed to be the principal party of these product sales due to the additional selling and operating requirements relating to pricing of products, conducting business with physical locations, and other selling and marketing activities required of the service providers and third-party importers.

The Company's Members, excluding its China independent service providers, may receive distributor allowances, which are comprised of discounts, rebates, and wholesale commission payments from the Company. Distributor allowances resulting from the Company's sales of its products to its Members are recorded against net sales because the distributor allowances represent discounts from the suggested retail price.

The Company compensates its sales leader Members with royalty overrides for services rendered relating to the development, retention, and management of their sales organizations. Royalty overrides are payable based on achieved sales volume. Royalty overrides are classified as an operating expense reflecting the services provided to the Company. The Company compensates its China independent service providers and third-party importers utilized in certain other countries for providing marketing, selling, and customer support services. As the Company is the principal party of the product sales as described above, the service fees payable to China independent service providers and the compensation received by third-party importers for the services they provide, which represents the discount provided to them, are recorded in selling, general, and administrative expenses within the Company's condensed consolidated statements of income.

The Company recognizes revenue when it delivers products to its United States Members; distributor allowances, inclusive of discounts and wholesale commissions, are recorded as a reduction to net sales; and royalty overrides are classified as an operating expense.

Shipping and handling services relating to product sales are recognized as fulfillment activities on the Company's performance obligation to transfer products and are therefore recorded within net sales as part of product sales and are not considered as separate revenues. Shipping and handling costs paid by the Company are included in cost of sales.

The Company presents sales taxes collected from customers on a net basis.

The Company generally receives the net sales price in cash or through credit card payments at the point of sale. Accounts receivable consist principally of credit card receivables arising from the sale of products to the Company's Members, and its collection risk is reduced due to geographic dispersion. Credit card receivables were \$72.4 million and \$65.2 million as of September 30, 2021 and December 31, 2020, respectively. Substantially all credit card receivables were current as of September 30, 2021 and December 31, 2020. The Company recorded bad-debt expense related to allowances for the Company's receivables of \$0.2 million and \$0.8 million during the three months ended September 30, 2021 and 2020, respectively, and \$0.4 million and \$2.1 million during the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and December 31, 2020, the Company's allowance for doubtful accounts was \$2.9 million and \$3.3 million, respectively. As of September 30, 2021 and December 31, 2020, the majority of the Company's total outstanding accounts receivable were current.

The Company records advance sales deposits when payment is received but revenue has not yet been recognized. In the majority of the Company's markets, advance sales deposits are generally recorded to income when the product is delivered to its Members. Additionally, advance sales deposits also include deferred revenues due to the timing of revenue recognition for products sold through China independent service providers. The estimated deferral period for advance sales deposits is generally within one week. During the nine months ended September 30, 2021, the Company recognized substantially all of the revenues that were included within advance sales deposits as of December 31, 2020 and any remaining such balance was not material as of September 30, 2021. Advance sales deposits are included in other current liabilities within the Company's condensed consolidated balance sheets. See Note 13, *Detail of Certain Balance Sheet Accounts*, for further information.

In general, if a Member returns product to the Company on a timely basis, they may obtain replacement product from the Company for such returned products. In addition, in general the Company maintains a buyback program pursuant to which it will repurchase products sold to a Member who has decided to leave the business. Allowances for product returns, primarily in connection with the Company's buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Allowances for product returns were \$3.8 million and \$3.7 million as of September 30, 2021 and December 31, 2020, respectively.



The Company's products are grouped in five principal categories: weight management; targeted nutrition; energy, sports, and fitness; outer nutrition; and literature and promotional items. However, the effect of economic factors on the nature, amount, timing, and uncertainty of revenue recognition and cash flows are similar among all five product categories. The Company defines its operating segments through six geographic regions. The effect of economic factors on the nature, amount, timing, and uncertainty of revenue recognition and cash flows are similar among the geographic regions within the Company's Primary Reporting Segment. See Note 6, *Segment Information*, for further information on the Company's reportable segments and the Company's presentation of disaggregated revenue by reportable segment.

#### *Distributor Compensation – U.S.*

In the U.S., distributor compensation, including Royalty overrides, is capped if the Company does not meet an annual requirement as described in the consent order discussed in more detail in Note 5, *Contingencies*. On a periodic basis, the Company evaluates if this requirement will be achieved by year end to determine if a cap on distributor compensation will be required, and then determines the appropriate amount of distributor compensation expense, which may vary in each reporting period. As of September 30, 2021, the Company believes that the cap to distributor compensation will not be applicable for the current year.

#### *Other Operating Income*

To encourage local investment and operations, governments in various China provinces conduct grant programs. The Company applied for and received several such grants in China. Government grants are recorded into income when a legal right to the grant exists, there is a reasonable assurance that the grant proceeds will be received, and the substantive conditions under which the grants were provided have been met. Generally, these substantive conditions are the Company maintaining operations and paying certain taxes in the relevant province and obtaining government approval by completing an annual application process. The Company believes the continuing obligation with respect to the funds is a general requirement that they are used only for its business in China. The Company did not recognize any government grant income related to its regional headquarters and distribution centers within China during the three months ended September 30, 2021. The Company recognized government grant income related to its regional headquarters and distribution centers within China of approximately \$0.6 million during the three months ended September 30, 2020 and approximately \$16.4 million and \$13.0 million during the nine months ended September 30, 2021 and 2020, respectively, in other operating income within its condensed consolidated statements of income. The Company intends to continue applying for government grants in China when programs are available; however, there is no assurance that the Company will receive grants in future periods.

#### *Other Expense, Net*

During the nine months ended September 30, 2021, the Company recognized a \$24.6 million loss on the extinguishment of the 2026 Notes (See Note 4, *Long-Term Debt*) in other expense, net within its condensed consolidated statements of income.

#### *Restricted Cash*

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Company's condensed consolidated balance sheets that sum to the total of the same such amounts shown in the Company's condensed consolidated statements of cash flows:

	September 30, 2021	December 31, 2020
	<i>(in millions)</i>	
Cash and cash equivalents	\$ 678.2	\$ 1,045.4
Restricted cash included in Prepaid expenses and other current assets	2.6	2.5
Restricted cash included in Other assets	6.2	6.1
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 687.0</u>	<u>\$ 1,054.0</u>

The majority of the Company's consolidated restricted cash is held by certain of its foreign entities and consists of cash deposits that are required due to the business operating requirements in those jurisdictions.

### COVID-19 Pandemic

During March 2020, the World Health Organization characterized the outbreak of coronavirus disease 2019, or COVID-19, as a pandemic. In response to the spread of COVID-19, certain government agencies and the Company itself have mandated various measures and recommended others, in each to protect the public and the Company's employees, which have disrupted certain areas of the Company's business including, but not limited to, distribution and selling activities. Despite the pandemic having a negative impact in certain of the Company's markets, the Company's consolidated net sales were higher for the nine months ended September 30, 2021 as compared to the same period in 2020. However, the Company's consolidated net sales were lower for the three months ended September 30, 2021 as compared to the same period in 2020. The ultimate extent and magnitude of the impact of COVID-19 is not known and could have a material adverse impact to the Company's business and future financial condition and results of operations. Management has been and continues to actively monitor the impact of COVID-19 generally and on the Company.

The Company's condensed consolidated financial statements presented herein reflect the latest estimates and assumptions made by management that affect the reported amounts of assets and liabilities and related disclosures as of the date of the condensed consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. The Company believes it has used reasonable estimates and assumptions to assess the fair values of its goodwill, marketing-related intangible assets, and long-lived assets; assessment of the annual effective tax rate; valuation of deferred income taxes; and the allowance for doubtful accounts. After reviewing historical and forward-looking information, the Company determined there were no impairments required relating to its goodwill, marketing-related intangible assets, and long-lived assets during the three and nine months ended September 30, 2021.

### 3. Inventories

Inventories consist primarily of finished goods available for resale. Inventories are stated at lower of cost (primarily on the first-in, first-out basis) and net realizable value.

The following are the major classes of inventory:

	September 30, 2021	December 31, 2020
	<i>(in millions)</i>	
Raw materials	\$ 80.1	\$ 80.1
Work in process	6.6	7.9
Finished goods	473.1	413.4
Total	<u>\$ 559.8</u>	<u>\$ 501.4</u>

### 4. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2021	December 31, 2020
	<i>(in millions)</i>	
Borrowings under senior secured credit facility, carrying value	\$ 1,093.6	\$ 976.5
2.625% convertible senior notes due 2024, carrying value of liability component	479.4	460.6
7.875% senior notes due 2025, carrying value	593.8	592.9
7.250% senior notes due 2026, carrying value	—	395.9
4.875% senior notes due 2029, carrying value	592.6	—
Other	3.3	2.5
Total	2,762.7	2,428.4
Less: current portion	29.6	22.9
Long-term portion	<u>\$ 2,733.1</u>	<u>\$ 2,405.5</u>

### *Senior Secured Credit Facility*

On August 16, 2018, the Company entered into a \$1.25 billion senior secured credit facility, or the 2018 Credit Facility, consisting of a \$250.0 million term loan A, or the 2018 Term Loan A, a \$750.0 million term loan B, or the 2018 Term Loan B, and a \$250.0 million revolving credit facility, or the 2018 Revolving Credit Facility, with a syndicate of financial institutions as lenders. The 2018 Term Loan B matures upon the earlier of: (i) August 18, 2025; or (ii) December 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds \$350.0 million and the Company exceeds certain leverage ratios as of that date. All obligations under the 2018 Credit Facility are unconditionally guaranteed by certain direct and indirect wholly-owned subsidiaries of Herbalife Nutrition Ltd. and secured by the equity interests of certain of Herbalife Nutrition Ltd.'s subsidiaries and substantially all of the assets of the domestic loan parties. Also on August 16, 2018, the Company issued \$400.0 million aggregate principal amount of senior unsecured notes, or the 2026 Notes as described below, and used the proceeds from the 2018 Credit Facility and the 2026 Notes to repay in full the \$1,178.1 million outstanding under the Company's prior senior secured credit facility.

The 2018 Term Loan B was issued to the lenders at a 0.25% discount, or \$1.9 million. The Company incurred approximately \$11.7 million of debt issuance costs in connection with the 2018 Credit Facility. The discount and debt issuance costs are recorded on the Company's condensed consolidated balance sheet and are being amortized over the life of the 2018 Credit Facility using the effective-interest method.

On December 12, 2019, the Company amended the 2018 Credit Facility which, among other things, reduced the interest rate for borrowings under the 2018 Term Loan B from either the eurocurrency rate plus a margin of 3.25% or the base rate plus a margin of 2.25% to either the eurocurrency rate plus a margin of 2.75% or the base rate plus a margin of 1.75%. The Company incurred approximately \$1.2 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to FASB ASC Topic 470, *Debt*, or ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. The debt issuance costs were recognized in interest expense, net within the Company's condensed consolidated statement of income during the three months ended December 31, 2019.

On March 19, 2020, the Company amended the 2018 Credit Facility which, among other things, extended the maturity of both the 2018 Term Loan A and 2018 Revolving Credit Facility to the earlier of: (i) March 19, 2025 or (ii) September 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds \$350.0 million and the Company exceeds certain leverage ratios as of that date; increased borrowings under the 2018 Term Loan A from \$234.4 million to a total of \$264.8 million; increased the total available borrowing capacity under 2018 Revolving Credit Facility from \$250.0 million to \$282.5 million; and reduced the interest rate for borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility from either the eurocurrency rate plus a margin of 3.00% or the base rate plus a margin of 2.00% to either the eurocurrency rate plus a margin of 2.50% or the base rate plus a margin of 1.50%. The Company incurred approximately \$1.6 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. Of the \$1.6 million of debt issuance costs, approximately \$1.1 million was recorded on the Company's condensed consolidated balance sheet and is being amortized over the life of the 2018 Credit Facility using the effective-interest method, and approximately \$0.5 million was recognized in interest expense, net within the Company's condensed consolidated statement of income during the three months ended March 31, 2020.

On February 10, 2021, the Company amended the 2018 Credit Facility which, among other things, reduced the interest rate for borrowings under the 2018 Term Loan B from either the eurocurrency rate plus a margin of 2.75% or the base rate plus a margin of 1.75% to either the eurocurrency rate plus a margin of 2.50% or the base rate plus a margin of 1.50%. The Company incurred approximately \$1.1 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. The debt issuance costs were recognized in interest expense, net within the Company's condensed consolidated statement of income during the three months ended March 31, 2021.

On July 30, 2021, the Company amended the 2018 Credit Facility which, among other things, increased borrowings under the 2018 Term Loan A from \$245.0 million to a total of \$286.2 million; increased the total available borrowing capacity under the 2018 Revolving Credit Facility from \$282.5 million to \$330.0 million; reduced the interest rate for borrowings under the 2018 Term Loan A and 2018 Revolving Credit Facility from either the eurocurrency rate plus a margin of 2.50% or the base rate plus a margin of 1.50% to, depending on the Company's total leverage ratio, either the eurocurrency rate plus a margin of between 1.75% and 2.25% or the base rate plus a margin of between 0.75% and 1.25%; and amended the commitment fee on the undrawn portion of the 2018 Revolving Credit Facility from 0.35% per annum to, depending on the Company's total leverage ratio, between 0.25% to 0.35% per annum. As a result of the amendment, the applicable margin for the 2018 Term Loan A and 2018 Revolving Credit Facility may also be subject to certain premiums or discounts tied to criteria determined by certain sustainability targets. The Company incurred approximately \$1.4 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. Of the \$1.4 million of debt issuance costs, approximately \$0.8 million was recorded on the Company's condensed consolidated balance sheet and is being amortized over the life of the 2018 Credit Facility using the effective-interest method, and approximately \$0.6 million was recognized in interest expense, net within the Company's condensed consolidated statement of income during the three months ended September 30, 2021.

Under the 2018 Credit Facility, borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility bear interest at, depending on the Company's total leverage ratio, either the eurocurrency rate plus a margin of between 1.75% and 2.25% or the base rate plus a margin of between 0.75% and 1.25%. The applicable margin may also be subject to certain premiums or discounts tied to criteria determined by certain sustainability targets. Borrowings under the 2018 Term Loan B bear interest at either the eurocurrency rate plus a margin of 2.50% or the base rate plus a margin of 1.50%. The eurocurrency rate is based on adjusted LIBOR and is subject to a floor of 0.00%. The base rate represents the highest of the Federal Funds Rate plus 0.50%, one-month adjusted LIBOR plus 1.00%, and the prime rate quoted by The Wall Street Journal, and is subject to a floor of 1.00%. The Company is required to pay a commitment fee on the 2018 Revolving Credit Facility of, depending on the Company's total leverage ratio, between 0.25% to 0.35% per annum on the undrawn portion of the 2018 Revolving Credit Facility. Interest is due at least quarterly on amounts outstanding under the 2018 Credit Facility.

The 2018 Credit Facility requires the Company to comply with a leverage ratio. The 2018 Credit Facility also contains affirmative and negative covenants customary for financings of this type, including, among other things, limitations or prohibitions on repurchasing common shares, declaring and paying dividends and other distributions, redeeming and repurchasing certain other indebtedness, loans and investments, additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2018 Credit Facility contains customary events of default. As of September 30, 2021 and December 31, 2020, the Company was in compliance with its debt covenants under the 2018 Credit Facility.

The 2018 Term Loan A and 2018 Term Loan B are payable in consecutive quarterly installments which began on December 31, 2018. In addition, beginning in 2020, the Company may be required to make mandatory prepayments towards the 2018 Term Loan B based on the Company's consolidated leverage ratio and annual excess cash flows as defined under the terms of the 2018 Credit Facility. The Company is also permitted to make voluntary prepayments. Amounts outstanding under the 2018 Term Loan A and 2018 Term Loan B may be voluntarily prepaid without premium or penalty, subject to customary breakage fees in connection with the prepayment of a eurocurrency loan. These prepayments, if any, will be applied against remaining quarterly installments owed under the 2018 Term Loan A and 2018 Term Loan B in order of maturity with the remaining principal due upon maturity, unless directed otherwise by the Company. Based on the 2020 consolidated leverage ratio and excess cash flow calculation, both as defined under the terms of the 2018 Credit Facility, the Company will not be required to make a mandatory prepayment in 2021 toward the 2018 Term Loan B.

As of September 30, 2021 and December 31, 2020, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 2.65% and 3.39%, respectively.

During the nine months ended September 30, 2021, the Company borrowed an aggregate amount of \$531.2 million under the 2018 Credit Facility and repaid a total amount of \$415.8 million on amounts outstanding under the 2018 Credit Facility, including a \$60.0 million prepayment on amounts outstanding under the 2018 Term Loan B. During the nine months ended September 30, 2020, the Company borrowed an aggregate amount of \$30.4 million under the 2018 Credit Facility and repaid a total amount of \$15.6 million on amounts outstanding under the 2018 Credit Facility. As of September 30, 2021 and December 31, 2020, the U.S. dollar amount outstanding under the 2018 Credit Facility was \$1,100.1 million and \$984.7 million, respectively. Of the \$1,100.1 million outstanding under the 2018 Credit Facility as of September 30, 2021, \$282.6 million was outstanding under the 2018 Term Loan A, \$667.5 million was outstanding under the 2018 Term Loan B, and \$150.0 million was outstanding under the 2018 Revolving Credit Facility. Of the \$984.7 million outstanding under the 2018 Credit Facility as of December 31, 2020, \$251.6 million was outstanding under the 2018 Term Loan A and \$733.1 million was outstanding under the 2018 Term Loan B. There were no borrowings outstanding under the 2018 Revolving Credit Facility as of December 31, 2020. There were no outstanding foreign currency borrowings under the 2018 Credit Facility as of September 30, 2021 and December 31, 2020.

During the three months ended September 30, 2021 and 2020, the Company recognized \$8.9 million and \$8.0 million, respectively, of interest expense relating to the 2018 Credit Facility, which included \$0.1 million and \$0.1 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.9 million and \$0.5 million, respectively, relating to amortization of debt issuance costs. During the nine months ended September 30, 2021 and 2020, the Company recognized \$26.1 million and \$29.2 million, respectively, of interest expense relating to the 2018 Credit Facility, which included \$0.3 million and \$0.2 million, respectively, relating to non-cash interest expense relating to the debt discount and \$1.8 million and \$1.4 million, respectively, relating to amortization of debt issuance costs.

The fair value of the outstanding borrowings on the 2018 Term Loan A is determined by utilizing over-the-counter market quotes for similar instruments, which are considered Level 2 inputs as described in Note 12, *Fair Value Measurements*. As of September 30, 2021 and December 31, 2020, the carrying value of the 2018 Term Loan A was \$281.6 million and \$250.5 million, respectively, and the fair value was approximately \$281.9 million and \$251.9 million, respectively. The fair value of the outstanding borrowings under the 2018 Term Loan B is determined by utilizing over-the-counter market quotes, which are considered Level 2 inputs as described in Note 12, *Fair Value Measurements*. As of September 30, 2021 and December 31, 2020, the carrying amount of the 2018 Term Loan B was \$662.0 million and \$726.0 million, respectively, and the fair value was approximately \$665.8 million and \$734.0 million, respectively. The fair value of the outstanding borrowings on the 2018 Revolving Credit Facility approximated its carrying value of \$150.0 million as of September 30, 2021 due to its variable interest rate which reprices frequently and represents floating market rates.

#### *Convertible Senior Notes due 2024*

In March 2018, the Company issued \$550.0 million aggregate principal amount of convertible senior notes, or the 2024 Convertible Notes, in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2024 Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2024 Convertible Notes pay interest at a rate of 2.625% per annum payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. Unless redeemed, repurchased or converted in accordance with their terms prior to such date, the 2024 Convertible Notes mature on March 15, 2024. Holders of the 2024 Convertible Notes may convert their notes at their option under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending June 30, 2018, if the last reported sale price of the Company's common shares for at least 20 trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price for the 2024 Convertible Notes on each applicable trading day; (ii) during the five business-day period immediately after any five consecutive trading day period, or the measurement period, in which the trading price per \$1,000 principal amount of 2024 Convertible Notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate for the 2024 Convertible Notes for each such day; (iii) if the Company calls the 2024 Convertible Notes for redemption; or (iv) upon the occurrence of specified corporate events. On and after December 15, 2023, holders may convert their 2024 Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the 2024 Convertible Notes will be settled, at the Company's election, in cash, the Company's common shares, or a combination thereof, based on the applicable conversion rate at such time. The 2024 Convertible Notes had an initial conversion rate of 16.0056 common shares per \$1,000 principal amount of the 2024 Convertible Notes, or an initial conversion price of approximately \$62.48 per common share. The conversion rate is subject to adjustment upon the occurrence of certain events and was 16.0467 common shares per \$1,000 principal amount of the 2024 Convertible Notes, or a conversion price of approximately \$62.32 per common share, as of September 30, 2021.

The Company incurred approximately \$12.9 million of issuance costs during the first quarter of 2018 relating to the issuance of the 2024 Convertible Notes. Of the \$12.9 million issuance costs incurred, \$9.6 million and \$3.3 million were recorded as debt issuance costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the 2024 Convertible Notes. The \$9.6 million of debt issuance costs, which was recorded as an additional debt discount on the Company's condensed consolidated balance sheet, are being amortized over the contractual term of the 2024 Convertible Notes using the effective-interest method.

In March 2018, the \$550.0 million aggregate principal amount of the 2024 Convertible Notes were initially allocated between long-term debt, or liability component, and additional paid-in capital, or equity component, within the Company's condensed consolidated balance sheet at \$410.1 million and \$139.9 million, respectively. The liability component was measured using the nonconvertible debt interest rate. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the 2024 Convertible Notes as a whole. Since the Company must still settle these 2024 Convertible Notes at face value at or prior to maturity, this liability component will be accreted up to its face value resulting in additional non-cash interest expense being recognized within the Company's condensed consolidated statements of income while the 2024 Convertible Notes remain outstanding. The effective-interest rate on the 2024 Convertible Notes is approximately 8.4% per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

As of September 30, 2021, the outstanding principal on the 2024 Convertible Notes was \$550.0 million, the unamortized debt discount and debt issuance costs were \$70.6 million, and the carrying amount of the liability component was \$479.4 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2020, the outstanding principal on the 2024 Convertible Notes was \$550.0 million, the unamortized debt discount and debt issuance costs were \$89.4 million, and the carrying amount of the liability component was \$460.6 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the liability component relating to the 2024 Convertible Notes was approximately \$548.6 million and \$541.8 million as of September 30, 2021 and December 31, 2020, respectively.

During the three months ended September 30, 2021 and 2020, the Company recognized \$10.0 million and \$9.5 million, respectively, of interest expense relating to the 2024 Convertible Notes, which included \$6.0 million and \$5.5 million, respectively, relating to non-cash interest expense relating to the debt discount and \$0.4 million and \$0.4 million, respectively, relating to amortization of debt issuance costs. During the nine months ended September 30, 2021 and 2020, the Company recognized \$29.6 million and \$28.1 million, respectively, of interest expense relating to the 2024 Convertible Notes, which included \$17.6 million and \$16.2 million, respectively, relating to non-cash interest expense relating to the debt discount and \$1.2 million and \$1.1 million, respectively, relating to amortization of debt issuance costs.

#### *Senior Notes due 2025*

In May 2020, the Company issued \$600.0 million aggregate principal amount of senior notes, or the 2025 Notes, in a private offering in the United States to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended, and outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended. The 2025 Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2025 Notes pay interest at a rate of 7.875% per annum payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021. The 2025 Notes mature on September 1, 2025.

At any time prior to September 1, 2022, the Company may redeem all or part of the 2025 Notes at a redemption price equal to 100% of their principal amount, plus a "make whole" premium as of the redemption date, and accrued and unpaid interest to the redemption date. In addition, at any time prior to September 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2025 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 107.875%, plus accrued and unpaid interest. Furthermore, at any time on or after September 1, 2022, the Company may redeem all or part of the 2025 Notes at the following redemption prices, expressed as percentages of principal amount, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve-month period beginning on September 1 of the years indicated below:

	Percentage
2022	103.938 %
2023	101.969 %
2024 and thereafter	100.000 %

The 2025 Notes contain customary negative covenants, including, among other things, limitations or prohibitions on restricted payments, incurrence of additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2025 Notes contain customary events of default.

The Company incurred approximately \$7.9 million of issuance costs during the second quarter of 2020 relating to the issuance of the 2025 Notes. The \$7.9 million of debt issuance costs, which was recorded as a debt discount on the Company's condensed consolidated balance sheet, are being amortized over the contractual term of the 2025 Notes using the effective-interest method.

As of September 30, 2021, the outstanding principal on the 2025 Notes was \$600.0 million, the unamortized debt issuance costs were \$6.2 million, and the carrying amount was \$593.8 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. As of December 31, 2020, the outstanding principal on the 2025 Notes was \$600.0 million, the unamortized debt issuance costs were \$7.1 million, and the carrying amount was \$592.9 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the 2025 Notes was approximately \$647.7 million and \$656.3 million as of September 30, 2021 and December 31, 2020, respectively, and was determined by utilizing over-the-counter market quotes and yield curves, which are considered Level 2 inputs as defined in Note 12, *Fair Value Measurements*.

During the three months ended September 30, 2021 and 2020, the Company recognized \$12.1 million and \$12.1 million, respectively, of interest expense relating to the 2025 Notes, which included \$0.4 million and \$0.3 million, respectively, relating to amortization of debt issuance costs. During the nine months ended September 30, 2021 and 2020, the Company recognized \$36.4 million and \$16.4 million, respectively, of interest expense relating to the 2025 Notes, which included \$1.0 million and \$0.4 million, respectively, relating to amortization of debt issuance costs.

#### *Senior Notes due 2026*

In August 2018, the Company issued \$400.0 million aggregate principal amount of senior notes, or the 2026 Notes, in a private offering in the United States to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended, and outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended. The 2026 Notes were senior unsecured obligations which ranked effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2026 Notes paid interest at a rate of 7.250% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2019. The 2026 Notes were to mature on August 15, 2026.

The Company incurred approximately \$5.4 million of issuance costs during the third quarter of 2018 relating to the issuance of the 2026 Notes. The \$5.4 million of debt issuance costs, which was recorded as a debt discount on the Company's condensed consolidated balance sheet, were being amortized over the contractual term of the 2026 Notes using the effective-interest method.

In May 2021, the Company issued \$600.0 million aggregate principal of new senior notes due 2029, or the 2029 Notes as described below, and subsequently used a portion of the proceeds to redeem all \$400.0 million of its existing 2026 Notes for an aggregate purchase price of \$428.5 million, which included \$7.7 million of accrued interest. For accounting purposes, pursuant to ASC 470, these transactions were accounted for as an extinguishment of the 2026 Notes. The Company recognized a loss on extinguishment of \$24.6 million as a result, which was recorded in other expense, net within the Company's condensed consolidated statement of income for the three months ended June 30, 2021.

As of December 31, 2020, the outstanding principal on the 2026 Notes was \$400.0 million, the unamortized debt issuance costs were \$4.1 million, and the carrying amount was \$395.9 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the 2026 Notes was approximately \$425.0 million as of December 31, 2020 and was determined by utilizing over-the-counter market quotes and yield curves, which are considered Level 2 inputs as defined in Note 12, *Fair Value Measurements*.

During the three months ended September 30, 2020, the Company recognized \$7.4 million of interest expense relating to the 2026 Notes, which included \$0.1 million relating to amortization of debt issuance costs. During the nine months ended September 30, 2021 and 2020, the Company recognized \$11.5 million and \$22.2 million, respectively, of interest expense relating to the 2026 Notes, which included \$0.2 million and \$0.4 million, respectively, relating to amortization of debt issuance costs.

#### *Senior Notes due 2029*

In May 2021, the Company issued \$600.0 million aggregate principal amount of senior notes, or the 2029 Notes, in a private offering in the United States to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended, and outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended. The 2029 Notes are senior unsecured obligations which rank effectively subordinate to any of the Company's existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2029 Notes pay interest at a rate of 4.875% per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The 2029 Notes mature on June 1, 2029.

At any time prior to June 1, 2024, the Company may redeem all or part of the 2029 Notes at a redemption price equal to 100% of their principal amount, plus a "make whole" premium as of the redemption date, and accrued and unpaid interest to the redemption date. In addition, at any time prior to June 1, 2024, the Company may redeem up to 40% of the aggregate principal amount of the 2029 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 104.875%, plus accrued and unpaid interest. Furthermore, at any time on or after June 1, 2024, the Company may redeem all or part of the 2029 Notes at the following redemption prices, expressed as percentages of principal amount, plus accrued and unpaid interest thereon to the redemption date, if redeemed during the twelve-month period beginning on June 1 of the years indicated below:

	Percentage
2024	102.438 %
2025	101.219 %
2026 and thereafter	100.000 %

The 2029 Notes contain customary negative covenants, including, among other things, limitations or prohibitions on restricted payments, incurrence of additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2029 Notes contain customary events of default.

The Company incurred approximately \$7.7 million of issuance costs during the second quarter of 2021 relating to the issuance of the 2029 Notes. The \$7.7 million of debt issuance costs, which was recorded as a debt discount on the Company's condensed consolidated balance sheet, are being amortized over the contractual term of the 2029 Notes using the effective-interest method.

As of September 30, 2021, the outstanding principal on the 2029 Notes was \$600.0 million, the unamortized debt issuance costs were \$7.4 million, and the carrying amount was \$592.6 million, which was recorded to long-term debt within the Company's condensed consolidated balance sheet. The fair value of the 2029 Notes was approximately \$600.1 million as of September 30, 2021 and was determined by utilizing over-the-counter market quotes and yield curves, which are considered Level 2 inputs as defined in Note 12, *Fair Value Measurements*.

During the three months ended September 30, 2021, the Company recognized \$7.5 million of interest expense relating to the 2029 Notes, which included \$0.2 million relating to amortization of debt issuance costs. During the nine months ended September 30, 2021, the Company recognized \$10.9 million of interest expense relating to the 2029 Notes, which included \$0.3 million relating to amortization of debt issuance costs.

#### *Valuation of 2024 Convertible Notes – Level 2 and Level 3 Inputs*

In order to determine the initial value of the 2024 Convertible Notes, the Company determined the fair value of the liability component of the 2024 Convertible Notes using two valuation methods. The Company reviewed market data that was available for publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market yields and credit standing to develop the straight debt yield estimate. The Company also used a lattice model, which included inputs such as stock price, the Convertible Note trading price, volatility and dividend yield to estimate the straight debt yield. The Company combined the results of the two valuation methods to determine the fair value of the liability component of the 2024 Convertible Notes. Most of these inputs are primarily considered Level 2 and Level 3 inputs. The Company used similar valuation approaches to determine the subsequent fair value of the liability component only for disclosure purposes, which includes using a lattice model and (1) reviewing market data relating to its 2025 Notes and 2029 Notes and comparable yield curves to determine its straight debt yield estimate, or (2) reviewing market data relating to publicly traded, senior, unsecured nonconvertible corporate bonds issued by companies with similar credit ratings in order to determine its straight debt yield estimate.

#### *Total Debt*

The Company's total interest expense was \$38.8 million and \$37.0 million for the three months ended September 30, 2021 and 2020, respectively, and \$115.5 million and \$96.4 million for the nine months ended September 30, 2021 and 2020, respectively, which was recognized within its condensed consolidated statements of income.

As of September 30, 2021, annual scheduled principal payments of debt were as follows:

	<b>Principal Payments</b>	
	<i>(in millions)</i>	
2021	\$	7.6
2022		29.4
2023		29.4
2024		586.4
2025		1,600.6
Thereafter		600.0
<b>Total</b>	<b>\$</b>	<b>2,853.4</b>

Certain vendors and government agencies may require letters of credit or similar guaranteeing arrangements to be issued or executed. As of September 30, 2021, the Company had \$39.9 million of issued but undrawn letters of credit or similar arrangements.



## 5. Contingencies

The Company is from time to time engaged in routine litigation. The Company regularly reviews all pending litigation matters in which it is involved and establishes reserves deemed appropriate by management for these litigation matters when a probable loss estimate can be made.

The matters described in this Note may take several years to resolve. While the Company believes it has meritorious defenses, it cannot be sure of their ultimate resolution. Although the Company may reserve amounts for certain matters that the Company believes represent the most likely outcome of the resolution of these related disputes, if the Company is incorrect in its assessment, the Company may have to record additional expenses, when it becomes probable that an increased potential liability is warranted.

### *Tax Matters*

The Mexican Tax Administration Service commenced audits of the Company's Mexican subsidiaries for the period from January to September 2007 and on May 10, 2013, the Company received an assessment related to that period. This assessment is subject to interest and inflationary adjustments. On July 11, 2013, the Company filed an administrative appeal disputing the assessment. On September 22, 2014, the Mexican Tax Administration Service denied the Company's administrative appeal. The Company commenced litigation in the Tax Court of Mexico in November 2014 to dispute the assertions made by the Mexican Tax Administration Service in the case. On January 16, 2018, the Tax Court of Mexico issued a verdict upholding the assessment issued by the Mexican Tax Administration Service. On April 16, 2018, the Company filed an appeal of this verdict, and in July 2019, the Circuit Court issued a written verdict upholding the assessment and the judgment of the Tax Court of Mexico. On August 12, 2019, the Company filed an appeal with the Supreme Court of Mexico. On October 16, 2019, the Supreme Court of Mexico refused to hear the Company's appeal. On October 21, 2019, the Company filed a petition with the Supreme Court of Mexico, asking them to reconsider their previous decision. On April 29, 2020, the Supreme Court of Mexico declined the Company's second petition and the adverse verdicts of the lower courts became final. The Company previously recognized a loss of \$19.0 million in selling, general, and administrative expenses within the Company's condensed consolidated statement of income during the year ended December 31, 2019. The Company paid the assessment during the second quarter of 2021 and the case is now closed.

The Mexican Tax Administration Service has delayed processing VAT refunds for companies operating in Mexico and the Company believes that the process for its Mexico subsidiary to receive VAT refunds may be delayed. As of September 30, 2021, the Company had \$25.5 million of Mexico VAT related assets, of which \$22.0 million was recognized in other assets and \$3.5 million was recognized in prepaid expenses and other current assets within its condensed consolidated balance sheet. This amount relates to VAT payments made over various periods and the Company believes these amounts are recoverable by refund or they may be applied against certain future tax liabilities. Effective January 1, 2019, a tax reform law changed the rules concerning possible use of VAT assets, specifically providing that, for VAT balances generated after December 31, 2018, those balances could not be offset against taxes other than VAT obligations currently due. The Company has not recognized any losses related to these VAT related assets as the Company does not believe a loss is probable.

The Company has received tax assessments for multiple years from the Federal Revenue Office of Brazil related to withholding/contributions based on payments to the Company's Members. The aggregate combined amount of all these assessments is equivalent to approximately \$10.2 million, translated at the September 30, 2021 spot rate. The Company is currently litigating these assessments. The Company has not accrued a loss for the majority of the assessments because the Company does not believe a loss is probable. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

The Company is under examination in several Brazilian states related to ICMS and ICMS-ST taxation. Some of these examinations have resulted in assessments for underpaid tax that the Company has appealed. The State of São Paulo has audited the Company for the 2013 and 2014 tax years. During July 2016, for the State of São Paulo, the Company received an assessment in the aggregate amount of approximately \$29.6 million, translated at the September 30, 2021 spot rate, relating to various ICMS issues for its 2013 tax year. In August 2016, the Company filed a first-level administrative appeal which was denied in February 2017. The Company filed a further appeal on March 9, 2017. On March 20, 2018, the Court held a hearing and a verdict was issued in June 2019, remanding the case back to the first-level administrative court. During August 2017, for the State of São Paulo, the Company received an assessment in the aggregate amount of approximately \$11.0 million, translated at the September 30, 2021 spot rate, relating to various ICMS issues for its 2014 tax year. In September 2017, the Company filed a first-level administrative appeal for the 2014 tax year. The first-level administrative appeal was denied. The Company filed an appeal at the second-level administrative court in December 2018 and a verdict was issued in April 2019, remanding the case back to the first-level administrative court. During September 2018, for the State of Rio de Janeiro, the Company received an assessment in the aggregate amount of approximately \$6.5 million, translated at the September 30, 2021 spot rate, relating to various ICMS-ST issues for its 2016 and 2017 tax years. On November 8, 2018, the Company filed a first-level administrative appeal, which was subsequently denied. On April 5, 2019, the Company appealed this tax assessment to the Administrative Council of Tax Appeals (second-level administrative appeal). The Company has also received other ICMS tax assessments in Brazil. During the fourth quarter of 2015, the Company filed appeals with state judicial courts against three of the assessments. The Company had issued surety bonds in the aggregate amount of \$9.3 million, translated at the September 30, 2021 spot rate, to guarantee payment of some of the tax assessments as required while the Company pursues the appeals. In addition, the Company has received several ICMS tax assessments in the aggregate amount of \$5.3 million, translated at the September 30, 2021 spot rate, from several other Brazilian states where surety bonds have not been issued. Litigation in all these cases is currently ongoing. The Company has not recognized a loss relating to any of these cases, assessments, and matters as the Company does not believe a loss is probable.

The Company has received various tax assessments in multiple jurisdictions in India for multiple years from the Indian VAT and Service Tax authorities in an amount equivalent to approximately \$14.2 million, translated at the September 30, 2021 spot rate. These assessments are for underpaid VAT and the ability to claim input Service Tax credits. The Company is litigating these cases at the tax administrative level and the tax tribunal levels as it believes it has meritorious defenses. The Company has not recognized a loss as it does not believe a loss is probable. In addition, the Indian income tax authorities audited the Company's fiscal years ended March 31, 2017 and 2018 and the Company has received assessments of approximately \$13.4 million and \$13.9 million for those respective years, translated at the September 30, 2021 spot rate. These assessments are subject to interest and penalties adjustments. The Company is currently litigating these cases. The Company currently believes that it is more likely than not that it will be successful in supporting its positions relating to these assessments. Accordingly, the Company has not accrued any amounts relating to these matters. In addition, the Indian income tax authorities are auditing the Company's fiscal years ended March 31, 2013 and 2020 and it is uncertain whether additional assessments will be received.

The Korea Customs Service audited the importation activities of Herbalife Korea for the period January 2011 through May 2013. The total assessment for the audit period is \$30.0 million, translated at the September 30, 2021 spot rate. The Company has paid the assessment and has recognized these payments in other assets within its condensed consolidated balance sheet as of September 30, 2021. The Company lodged a first-level administrative appeal, which was denied on October 21, 2016. On January 31, 2017, the Company filed a further appeal to the National Tax Tribunal of Korea. In November 2018, the Company received an unfavorable decision from the National Tax Tribunal of Korea. In February 2019, the Company submitted an appeal to the Seoul Administrative Court. On February 17, 2021, the Seoul Administrative Court issued a verdict in favor of the Company. On March 10, 2021, the Korea Customs Service filed an appeal to the High Court against the verdict and the appeal is currently pending. The Korea Customs Service audited the importation activities of Herbalife Korea for the period May 2013 through December 2013. The total assessment for the audit period is \$9.8 million, translated at the September 30, 2021 spot rate. The Company has paid the assessment and has recognized this payment in other assets within its condensed consolidated balance sheet as of September 30, 2021. The Korea Customs Service audited the importation activities of Herbalife Korea for the period January 2014 through December 2014. The total assessment for the audit period is \$15.2 million, translated at the September 30, 2021 spot rate. The Company paid the assessment in September 2020 and has recognized this payment in other assets within its condensed consolidated balance sheet as of September 30, 2021. The Company is currently litigating both of these assessments at the Seoul Administrative Court. The Korea Customs Service audited the importation activities of Herbalife Korea for the period January 2015 through December 2017. The total assessment for the audit period is \$12.3 million, translated at the September 30, 2021 spot rate. The Company intends to timely pay and subsequently appeal this assessment. The Company disagrees with the assertions made in all of these assessments, as well as the calculation methodology used in the assessments. The Company has not recognized a loss as the Company does not believe a loss is probable.

During the course of 2016, the Company received various questions from the Greek Social Security Agency and on December 29, 2016, the Greek Social Security Agency issued an assessment with respect to Social Security Contributions on Member earnings for the 2006 year. For Social Security issues, the statute of limitations is open for 2007 and later years in Greece. Despite the assessment amount being immaterial, the Company could receive similar assessments covering other years. The Company continues to litigate the assessment. The Company has not recognized a loss as it does not believe a loss is probable. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome if additional assessments for other periods were to be issued.

During March 2018, the Chinese Customs Service began an audit of the Company's Chinese importations initially covering the periods 2015 through 2017 and had subsequently expanded its audit. The Company responded to the initial questions from the Customs Service. The Custom cases are now closed and resulted in immaterial settlement amounts that were accrued in prior periods.

#### *U.S. Federal Trade Commission Consent Order*

On July 15, 2016, the Company and the Federal Trade Commission, or the FTC, entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order. The Consent Order was lodged with the U.S. District Court for the Central District of California on July 15, 2016 and became effective on July 25, 2016, or the Effective Date. The Consent Order resolved the FTC's multi-year investigation of the Company.

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC's allegations (except as to the Court having jurisdiction over the matter), the Company made, through its wholly-owned subsidiary Herbalife International of America, Inc., a \$200 million payment to the FTC. Additionally, the Company implemented and continues to enhance certain existing procedures in the U.S. Among other requirements, the Consent Order requires the Company to categorize all existing and future Members in the U.S. as either "preferred members" – who are simply consumers who only wish to purchase products for their own household use, or "distributors" – who are Members who wish to resell some products or build a sales organization. The Company also agreed to compensate distributors on eligible U.S. sales within their downline organization, which include purchases by preferred members, purchases by a distributor for his or her personal consumption within allowable limits and sales of product by a distributor to his or her customers. The Consent Order also imposes restrictions on a distributor's ability to open Nutrition Clubs in the United States. The Consent Order subjects the Company to certain audits by an independent compliance auditor for a period of seven years; imposes requirements on the Company regarding compliance certification and record creation and maintenance; and prohibits the Company, its affiliates and its distributors from making misrepresentations and misleading claims regarding, among other things, income and lavish lifestyles. The FTC and the independent compliance auditor have the right to inspect Company records and request additional compliance reports for purposes of conducting audits pursuant to the Consent Order. In September 2016, the Company and the FTC mutually selected Affiliated Monitors, Inc. to serve as the independent compliance auditor. The Company continues to monitor the impact of the Consent Order and, while the Company currently does not expect the settlement to have a long-term and materially adverse impact on its business and its Member base, the Company's business and its Member base, particularly in the United States, may be negatively impacted. If the Company is unable to comply with the Consent Order then this could result in a material and adverse impact to the Company's results of operations and financial condition.

#### *Other Matters*

As a marketer of foods, dietary and nutritional supplements, and other products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. The effects of these claims to date have not been material to the Company. The Company currently maintains product liability insurance with an annual deductible of \$12.5 million.

As previously disclosed, the SEC and the Department of Justice, or DOJ, conducted investigations into the Company's compliance with the Foreign Corrupt Practices Act, or FCPA, in China. Also, as previously disclosed, the Company conducted its own review and implemented remedial and improvement measures based upon this review, including replacement of certain employees and enhancements of Company policies and procedures in China. The Company cooperated with the SEC and the DOJ and has now reached separate resolutions with each of them.

On August 28, 2020, the SEC accepted the Offer of Settlement and issued an administrative order finding that the Company violated the books and records and internal controls provisions of the FCPA. In addition, on August 28, 2020, the Company and the DOJ separately entered into a court-approved deferred prosecution agreement, or DPA, under which the DOJ deferred criminal prosecution of the Company for a period of three years related to a conspiracy to violate the books and records provisions of the FCPA. Among other things, the Company is required to undertake compliance self-reporting obligations for the three-year terms of the agreements with the SEC and the DOJ. If the Company remains in compliance with the DPA during its three-year term, the deferred charge against the Company will be dismissed with prejudice. In addition, the Company paid the SEC and the DOJ aggregate penalties, disgorgement and prejudgment interest of approximately \$123 million in September 2020, where \$83 million and \$40 million were recognized in selling, general, and administrative expenses within the Company's condensed consolidated statements of income for the years ended December 31, 2020 and 2019, respectively, related to this matter. Any failure to comply with these agreements, or any resulting further government action, could result in a material and adverse impact to the Company's business, financial condition, and operating results.

On September 18, 2017, the Company and certain of its subsidiaries and Members were named as defendants in a purported class action lawsuit, titled *Rodgers, et al. v Herbalife Ltd., et al.* and filed in the U.S. District Court for the Southern District of Florida, which alleges violations of Florida's Deceptive and Unfair Trade Practices statute and federal Racketeer Influenced and Corrupt Organizations statutes, unjust enrichment, and negligent misrepresentation. On August 23, 2018, the Court issued an order transferring the action to the U.S. District Court for the Central District of California as to four of the putative class plaintiffs and ordering the remaining four plaintiffs to arbitration, thereby terminating the Company defendants from the Florida action. The plaintiffs seek damages in an unspecified amount. While the Company continues to believe the lawsuit is without merit, the parties are exploring possible resolution, including settlement of this matter. Any settlement would be without admission of liability or wrongdoing by the Company and subject to the preliminary and final approval of the court. If the parties are unable to reach a settlement, the Company will continue to vigorously defend itself against the claims in the lawsuit. The Company is currently unable to reasonably estimate the amount of any potential loss that may result from an unfavorable outcome.

## 6. Segment Information

The Company is a nutrition company that sells a wide range of weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products. The Company's products are manufactured by the Company in its Changsha, Hunan, China extraction facility; Suzhou, China facility; Nanjing, China facility; Lake Forest, California facility; and Winston-Salem, North Carolina facility, as well as by third-party providers, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. Revenues reflect sales of products by the Company to its Members and are categorized based on geographic location.

As of September 30, 2021, the Company sold products in 95 markets throughout the world and was organized and managed by six geographic regions: North America, Mexico, South and Central America, EMEA, Asia Pacific, and China. The Company defines its operating segments as those geographical operations. The Company aggregates its operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment, as management believes that the Company's operating segments have similar operating characteristics and similar long-term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. The Company reviews its net sales and contribution margin by operating segment and reviews its assets and capital expenditures on a consolidated basis and not by operating segment. Therefore, net sales and contribution margin are presented by reportable segment and assets and capital expenditures by segment are not presented.

Operating information for the two reportable segments is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(in millions)				
<b>Net sales:</b>				
Primary Reporting Segment	\$ 1,276.9	\$ 1,301.8	\$ 3,985.7	\$ 3,511.7
China	154.0	220.0	499.1	619.4
Total net sales	<u>\$ 1,430.9</u>	<u>\$ 1,521.8</u>	<u>\$ 4,484.8</u>	<u>\$ 4,131.1</u>
<b>Contribution margin(1):</b>				
Primary Reporting Segment	\$ 538.8	\$ 538.2	\$ 1,690.3	\$ 1,485.4
China(2)	136.9	197.8	442.0	553.3
Total contribution margin	\$ 675.7	\$ 736.0	\$ 2,132.3	\$ 2,038.7
Selling, general, and administrative expenses(2)	486.3	529.7	1,498.9	1,559.5
Other operating income	—	(0.6)	(16.4)	(13.0)
Interest expense, net	37.7	35.2	112.0	89.0
Other expense, net	—	—	24.6	—
Income before income taxes	151.7	171.7	513.2	403.2
Income taxes	34.3	33.6	104.2	104.4
Net income	<u>\$ 117.4</u>	<u>\$ 138.1</u>	<u>\$ 409.0</u>	<u>\$ 298.8</u>

(1) Contribution margin consists of net sales less cost of sales and Royalty overrides. For the China segment, contribution margin does not include service fees to China independent service providers.

(2) Service fees to China independent service providers totaling \$85.9 million and \$124.1 million for the three months ended September 30, 2021 and 2020, respectively, and \$279.1 million and \$352.0 million for the nine months ended September 30, 2021 and 2020, respectively, are included in selling, general, and administrative expenses.

The following table sets forth net sales by geographic area:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(in millions)				
<b>Net sales:</b>				
United States	\$ 345.3	\$ 386.7	\$ 1,093.0	\$ 1,033.9
China	154.0	220.0	499.1	619.4
Mexico	117.5	110.3	354.5	321.6
Others	814.1	804.8	2,538.2	2,156.2
Total net sales	<u>\$ 1,430.9</u>	<u>\$ 1,521.8</u>	<u>\$ 4,484.8</u>	<u>\$ 4,131.1</u>

## 7. Share-Based Compensation

The Company has share-based compensation plans, which are more fully described in Note 9, *Share-Based Compensation*, to the Consolidated Financial Statements included in the 2020 10-K. During the nine months ended September 30, 2021, the Company granted restricted stock units subject to service conditions and restricted stock units subject to service and performance conditions.

Share-based compensation expense amounted to \$14.4 million and \$15.4 million for the three months ended September 30, 2021 and 2020, respectively, and \$42.3 million and \$37.9 million for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021, the total unrecognized compensation cost related to all non-vested stock awards was \$89.2 million and the related weighted-average period over which it is expected to be recognized is approximately 1.6 years.

The following table summarizes the activity for all stock appreciation rights, or SARs, under the Company's share-based compensation plans for the nine months ended September 30, 2021:

	Number of Awards <i>(in thousands)</i>	Weighted-Average Exercise Price Per Award	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value(1) <i>(in millions)</i>
Outstanding as of December 31, 2020(2)(3)	3,737	\$ 27.23	4.6 years	\$ 77.8
Granted	—	\$ —		
Exercised(4)	(1,027)	\$ 27.67		
Forfeited	(23)	\$ 25.03		
Outstanding as of September 30, 2021(3)	<u>2,687</u>	\$ 27.08	4.0 years	\$ 41.1
Exercisable as of September 30, 2021(5)	<u>2,687</u>	\$ 27.08	4.0 years	\$ 41.1
Vested and expected to vest as of September 30, 2021	<u>2,687</u>	\$ 27.08	4.0 years	\$ 41.1

(1) The intrinsic value is the amount by which the current market value of the underlying stock exceeds the exercise price of the SARs.

(2) Includes less than 0.1 million market condition SARs as of December 31, 2020.

(3) Includes 0.8 million and 1.1 million performance condition SARs as of September 30, 2021 and December 31, 2020, respectively, which represents the maximum amount that can vest.

(4) Includes less than 0.1 million market condition SARs and 0.3 million performance condition SARs.

(5) Includes 0.8 million performance condition SARs.

There were no SARs granted during the three and nine months ended September 30, 2021 and 2020. The total intrinsic value of SARs exercised during the three months ended September 30, 2021 and 2020 was \$1.6 million and \$38.5 million, respectively. The total intrinsic value of SARs exercised during the nine months ended September 30, 2021 and 2020 was \$25.7 million and \$50.2 million, respectively.

The following table summarizes the activities for all stock units under the Company's share-based compensation plans for the nine months ended September 30, 2021:

	Number of Shares <i>(in thousands)</i>	Weighted-Average Grant Date Fair Value Per Share
Outstanding and nonvested as of December 31, 2020(1)	3,068	\$ 44.01
Granted(2)	1,526	\$ 48.36
Vested	(811)	\$ 43.57
Forfeited(3)	(111)	\$ 44.95
Outstanding and nonvested as of September 30, 2021(1)	<u>3,672</u>	\$ 45.89
Expected to vest as of September 30, 2021(4)	<u>3,212</u>	\$ 45.51

(1) Includes 1,156,954 and 712,596 performance-based stock unit awards as of September 30, 2021 and December 31, 2020, respectively, which represents the maximum amount that can vest.

(2) Includes 447,346 performance-based stock unit awards.

(3) Includes 2,988 performance-based stock unit awards

(4) Includes 768,754 performance-based stock unit awards.

The total vesting date fair value of stock units which vested during the three months ended September 30, 2021 and 2020 was \$0.4 million and \$1.3 million, respectively. The total vesting date fair value of stock units which vested during the nine months ended September 30, 2021 and 2020 was \$37.8 million and \$12.3 million, respectively.

## 8. Income Taxes

Income taxes were \$34.3 million and \$33.6 million for the three months ended September 30, 2021 and 2020, respectively, and \$104.2 million and \$104.4 million for the nine months ended September 30, 2021 and 2020, respectively. The effective income tax rate was 22.6% and 19.5% for the three months ended September 30, 2021 and 2020, respectively, and 20.3% and 25.9% for the nine months ended September 30, 2021 and 2020, respectively. The increase in the effective tax rate for the three months ended September 30, 2021 as compared to the same period in 2020 was primarily due to a decrease in net benefits from discrete events, partially offset by changes in the geographic mix of the Company's income. The decrease in the effective tax rate for the nine months ended September 30, 2021 as compared to the same period in 2020 was primarily due to changes in the geographic mix of the Company's income and a decrease in expense from discrete events.

As of September 30, 2021, the total amount of unrecognized tax benefits, including related interest and penalties, was \$76.8 million. If the total amount of unrecognized tax benefits was recognized, \$53.5 million of unrecognized tax benefits, \$15.0 million of interest, and \$2.5 million of penalties would impact the effective tax rate.

The Company believes that it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to approximately \$9.1 million within the next twelve months due to the expiration of statute of limitations in various jurisdictions.

## 9. Derivative Instruments and Hedging Activities

### *Interest Rate Risk Management*

The Company engages in an interest rate hedging strategy for which the hedged transactions are forecasted interest payments on the Company's 2018 Credit Facility, which are based on variable rates.

During the first quarter of 2020, the Company entered into various interest rate swap agreements with effective dates ranging between February 2020 and March 2020. These agreements collectively provide for the Company to pay interest at a weighted-average fixed rate of 0.98% on aggregate notional amounts of \$100.0 million under the 2018 Credit Facility until their respective expiration dates ranging between February 2022 and March 2023, while receiving interest based on LIBOR on the same notional amounts for the same periods. At inception, these swap agreements were designated as cash flow hedges against the variability in certain LIBOR-based borrowings under the 2018 Credit Facility, effectively fixing the interest rate on such notional amounts at a weighted-average effective rate of, depending on the Company's total leverage ratio, between 2.73% and 3.23%. These hedge relationships qualified as effective under FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815, and consequently all changes in the fair value of these interest rate swaps are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in interest expense, net within the Company's condensed consolidated statement of income during the period when the hedged item and underlying transaction affect earnings. The fair values of the interest rate swap agreements are based on third-party bank quotes, and as of September 30, 2021 and December 31, 2020, the Company recorded liabilities at fair value of \$0.4 million and \$1.0 million, respectively, relating to these interest rate swap agreements.

### *Foreign Currency Instruments*

The Company designates certain foreign currency derivatives, primarily comprised of foreign currency forward contracts and option contracts, as freestanding derivatives for which hedge accounting does not apply. The changes in the fair market value of these freestanding derivatives are included in selling, general, and administrative expenses within the Company's condensed consolidated statements of income. The Company primarily uses freestanding foreign currency derivatives to hedge foreign currency-denominated intercompany transactions and to partially mitigate the impact of foreign currency fluctuations. The fair value of the freestanding foreign currency derivatives is based on third-party quotes. The Company's foreign currency derivative contracts are generally executed on a monthly basis.

The Company designates as cash flow hedges those foreign currency forward contracts it enters into to hedge forecasted inventory purchases and intercompany management fees that are subject to foreign currency exposures. Forward contracts are used to hedge forecasted inventory purchases over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in cost of sales within the Company's condensed consolidated statement of income during the period which approximates the time the hedged inventory is sold. The Company also hedges forecasted intercompany management fees over specific months. These contracts allow the Company to sell Euros in exchange for U.S. dollars at specified contract rates. Changes in the fair value of these forward contracts designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in selling, general, and administrative expenses within the Company's condensed consolidated statement of income during the period when the hedged item and underlying transaction affect earnings. The Company has elected to record changes in the fair value of amounts excluded from the assessment of effectiveness currently in earnings.

As of September 30, 2021 and December 31, 2020, the aggregate notional amounts of all foreign currency contracts outstanding designated as cash flow hedges were approximately \$56.2 million and \$56.4 million, respectively. As of September 30, 2021, these outstanding contracts were expected to mature over the next fifteen months. The Company's derivative financial instruments are recorded on the condensed consolidated balance sheets at fair value based on third-party quotes. As of September 30, 2021, the Company recorded assets at fair value of \$0.3 million and liabilities at fair value of \$0.9 million relating to all outstanding foreign currency contracts designated as cash flow hedges. As of December 31, 2020, the Company recorded liabilities at fair value of \$3.9 million relating to all outstanding foreign currency contracts designated as cash flow hedges. The Company assesses hedge effectiveness at least quarterly and the hedges remained effective as of September 30, 2021 and December 31, 2020.

As of both September 30, 2021 and December 31, 2020, the majority of the Company's outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within one month. As of September 30, 2021, the Company had aggregate notional amounts of approximately \$539.8 million of foreign currency contracts, inclusive of freestanding contracts and contracts designated as cash flow hedges.

The following tables summarize the derivative activity during the three and nine months ended September 30, 2021 and 2020 relating to all the Company's derivatives.

*Gains and Losses on Derivative Instruments*

The following table summarizes losses relating to derivative instruments recorded in other comprehensive income (loss) during the three and nine months ended September 30, 2021 and 2020:

	Amount of Gain (Loss) Recognized in Other Comprehensive (Loss) Income			
	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	<i>(in millions)</i>			
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ 0.9	\$ 0.1	\$ 0.7	\$ 6.4
Interest rate swaps	(0.1)	—	(0.1)	(1.5)

As of September 30, 2021, the estimated amount of existing net losses related to cash flow hedges recorded in accumulated other comprehensive loss that are expected to be reclassified into earnings over the next twelve months was \$1.2 million.



The effect of cash flow hedging relationships on the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2021 and 2020 was as follows:

**Location and Amount of (Loss) Gain Recognized in Income on Cash Flow Hedging Relationships**

	Three Months Ended					
	September 30, 2021		September 30, 2020			
	Cost of sales	Selling, general, and administrative expenses	Interest expense, net	Cost of sales	Selling, general, and administrative expenses	Interest expense, net
	<i>(in millions)</i>					
Total amounts presented in the condensed consolidated statements of income	\$ 305.2	\$ 486.3	\$ 37.7	\$ 322.7	\$ 529.7	\$ 35.2
Foreign exchange currency contracts relating to inventory hedges:						
Amount of (loss) gain reclassified from accumulated other comprehensive loss to income	(0.8)	—	—	4.0	—	—
Amount of loss excluded from assessment of effectiveness recognized in income	(0.9)	—	—	(0.8)	—	—
Foreign exchange currency contracts relating to intercompany management fee hedges:						
Amount of loss reclassified from accumulated other comprehensive loss to income	—	—	—	—	(0.1)	—
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	—	—	—
Interest rate swaps:						
Amount of loss reclassified from accumulated other comprehensive loss to income	—	—	(0.3)	—	—	(0.2)
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	—	—	—

**Location and Amount of (Loss) Gain Recognized in Income on Cash Flow Hedging Relationships**  
**Nine Months Ended**

	September 30, 2021		September 30, 2020			
	Cost of sales	Selling, general, and administrative expenses	Interest expense, net	Cost of sales	Selling, general, and administrative expenses	Interest expense, net
Total amounts presented in the condensed consolidated statements of income	\$ 942.7	\$ 1,498.9	\$ 112.0	\$ 841.2	\$ 1,559.5	\$ 89.0
<i>(in millions)</i>						
<b>Foreign exchange currency contracts relating to inventory hedges:</b>						
Amount of (loss) gain reclassified from accumulated other comprehensive loss to income	(1.5)	—	—	2.8	—	—
Amount of loss excluded from assessment of effectiveness recognized in income	(3.0)	—	—	(2.6)	—	—
<b>Foreign exchange currency contracts relating to intercompany management fee hedges:</b>						
Amount of loss reclassified from accumulated other comprehensive loss to income	—	(0.3)	—	—	—	—
Amount of gain excluded from assessment of effectiveness recognized in income	—	0.1	—	—	0.1	—
<b>Interest rate swaps:</b>						
Amount of loss reclassified from accumulated other comprehensive loss to income	—	—	(0.7)	—	—	(0.3)
Amount of gain excluded from assessment of effectiveness recognized in income	—	—	—	—	—	—

The following table summarizes gains (losses) recorded to income relating to derivative instruments not designated as hedging instruments during the three and nine months ended September 30, 2021 and 2020:

	Amount of Gain Recognized in Income				Location of Gain Recognized in Income
	Three Months Ended		Nine Months Ended		
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020	
<i>(in millions)</i>					
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange currency contracts	\$ 2.8	\$ 4.2	\$ 3.7	\$ 5.9	Selling, general, and administrative expenses

The Company reports its derivatives at fair value as either assets or liabilities within its condensed consolidated balance sheets. See Note 12, *Fair Value Measurements*, for information on derivative fair values and their condensed consolidated balance sheets location as of September 30, 2021 and December 31, 2020.

## 10. Shareholders' Deficit

Changes in shareholders' deficit for the three months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30, 2021					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	<i>(in millions)</i>					
Balance as of June 30, 2021	\$ 0.1	\$ (328.9)	\$ 306.1	\$ (192.3)	\$ (1,076.2)	\$ (1,291.2)
Issuance of 0.1 common shares from exercise of SARs, restricted stock units, employee stock purchase plan, and other	—		1.2			1.2
Additional capital from share-based compensation			14.4			14.4
Repurchases of 3.5 common shares	—		(9.6)		(153.1)	(162.7)
Net income					117.4	117.4
Foreign currency translation adjustment, net of income taxes of \$(0.6)				(14.5)		(14.5)
Unrealized gain on derivatives, net of income taxes of \$—				2.0		2.0
Balance as of September 30, 2021	<u>\$ 0.1</u>	<u>\$ (328.9)</u>	<u>\$ 312.1</u>	<u>\$ (204.8)</u>	<u>\$ (1,111.9)</u>	<u>\$ (1,333.4)</u>
	<b>Three Months Ended September 30, 2020</b>					
	<i>(in millions)</i>					
Balance as of June 30, 2020	\$ 0.1	\$ (328.9)	\$ 380.7	\$ (246.1)	\$ (70.6)	\$ (264.8)
Issuance of 0.8 common shares from exercise of SARs, restricted stock units, employee stock purchase plan, and other	—		1.1			1.1
Additional capital from share-based compensation			15.4			15.4
Repurchases of 16.8 common shares	—		(61.4)		(757.7)	(819.1)
Net income					138.1	138.1
Foreign currency translation adjustment, net of income taxes of \$0.7				19.5		19.5
Unrealized loss on derivatives, net of income taxes of \$(0.1)				(3.1)		(3.1)
Balance as of September 30, 2020	<u>\$ 0.1</u>	<u>\$ (328.9)</u>	<u>\$ 335.8</u>	<u>\$ (229.7)</u>	<u>\$ (690.2)</u>	<u>\$ (912.9)</u>

Changes in shareholders' deficit for the nine months ended September 30, 2021 and 2020 were as follows:

	Nine Months Ended September 30, 2021					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	<i>(in millions)</i>					
Balance as of December 31, 2020	\$ 0.1	\$ (328.9)	\$ 342.3	\$ (182.2)	\$ (687.4)	\$ (856.1)
Issuance of 1.6 common shares from exercise of SARs, restricted stock units, employee stock purchase plan, and other	—		3.2			3.2
Additional capital from share-based compensation			42.3			42.3
Repurchases of 18.8 common shares	—		(75.7)		(833.5)	(909.2)
Net income					409.0	409.0
Foreign currency translation adjustment, net of income taxes of \$0.9				(25.8)		(25.8)
Unrealized gain on derivatives, net of income taxes of \$—				3.2		3.2
Balance as of September 30, 2021	<u>\$ 0.1</u>	<u>\$ (328.9)</u>	<u>\$ 312.1</u>	<u>\$ (204.8)</u>	<u>\$ (1,111.9)</u>	<u>\$ (1,333.4)</u>

	Nine Months Ended September 30, 2020					
	Common Shares	Treasury Stock	Paid-in Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Deficit
	<i>(in millions)</i>					
Balance as of December 31, 2019	\$ 0.1	\$ (328.9)	\$ 366.6	\$ (212.5)	\$ (215.3)	\$ (390.0)
Issuance of 1.5 common shares from exercise of SARs, restricted stock units, employee stock purchase plan, and other	—		2.7			2.7
Additional capital from share-based compensation			37.9			37.9
Repurchases of 17.4 common shares	—		(71.4)		(773.7)	(845.1)
Net income					298.8	298.8
Foreign currency translation adjustment, net of income taxes of \$(4.1)				(20.4)		(20.4)
Unrealized gain on derivatives, net of income taxes of \$(0.4)				3.2		3.2
Balance as of September 30, 2020	<u>\$ 0.1</u>	<u>\$ (328.9)</u>	<u>\$ 335.8</u>	<u>\$ (229.7)</u>	<u>\$ (690.2)</u>	<u>\$ (912.9)</u>

#### Dividends

The Company has not declared or paid cash dividends since 2014. The declaration of future dividends is subject to the discretion of the Company's board of directors and will depend upon various factors, including its earnings, financial condition, Herbalife Nutrition Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the 2018 Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects and other factors deemed relevant by its board of directors.

#### Share Repurchases

On February 9, 2021, the Company's board of directors authorized a new three-year \$1.5 billion share repurchase program that will expire on February 9, 2024, which replaced the Company's prior share repurchase authorization that was set to expire on October 30, 2023 and had approximately \$7.9 million of remaining authorized capacity when it was replaced. This share repurchase program allows the Company, which includes an indirect wholly-owned subsidiary of Herbalife Nutrition Ltd., to repurchase the Company's common shares at such times and prices as determined by management, as market conditions warrant, and to the extent Herbalife Nutrition Ltd.'s distributable reserves are available under Cayman Islands law. The 2018 Credit Facility permits the Company to repurchase its common shares as long as no default or event of default exists and other conditions, such as specified consolidated leverage ratios, are met. As of September 30, 2021, the remaining authorized capacity under the Company's \$1.5 billion share repurchase program was approximately \$1.2 billion.

During January 2021, the Company repurchased from Mr. Carl C. Icahn and certain of his affiliates an aggregate of approximately 12.5 million common shares of the Company at an aggregate cost of approximately \$600.0 million, or \$48.05 per share, and subsequently retired these shares. In addition, during the nine months ended September 30, 2021, the Company repurchased approximately 5.7 million of its common shares through open-market purchases at an aggregate cost of approximately \$281.1 million, or an average cost of \$49.27 per share, and subsequently retired these shares. In total, during the nine months ended September 30, 2021, the Company repurchased approximately 18.2 million of its common shares at an aggregate cost of approximately \$881.1 million, or an average cost of \$48.43 per share. In August 2020, the Company completed its modified Dutch auction tender offer and then subsequently paid cash to repurchase and retire a total of approximately 15.4 million of its common shares at an aggregate cost of approximately \$750.0 million, or \$48.75 per share. In addition, during the nine months ended September 30, 2020, the Company repurchased approximately 1.4 million of its common shares through open-market purchases at an aggregate cost of approximately \$67.1 million, or an average cost of \$46.44 per share, and subsequently retired these shares. In total, during the nine months ended September 30, 2020, the Company repurchased approximately 16.8 million of its common shares at an aggregate cost of approximately \$817.1 million, or an average cost of \$48.55 per share.

As of both September 30, 2021 and December 31, 2020, the Company held approximately 10.0 million of treasury shares for U.S. GAAP purposes. These treasury shares increased the Company's shareholders' deficit and are reflected at cost within the Company's accompanying condensed consolidated balance sheets. Although these shares are owned by an indirect wholly-owned subsidiary of the Company and remain legally outstanding, they are reflected as treasury shares under U.S. GAAP and therefore reduce the number of common shares outstanding within the Company's condensed consolidated financial statements and the weighted-average number of common shares outstanding used in calculating earnings per share. The common shares of Herbalife Nutrition Ltd. held by the indirect wholly-owned subsidiary, however, remain outstanding on the books and records of the Company's transfer agent and therefore still carry voting and other share rights related to ownership of the Company's common shares, which may be exercised. So long as it is consistent with applicable laws, such shares will be voted by such subsidiary in the same manner, and to the maximum extent possible in the same proportion, as all other votes cast with respect to any matter properly submitted to a vote of Herbalife Nutrition Ltd.'s shareholders.

The number of shares issued upon vesting or exercise for certain restricted stock units and SARs granted pursuant to the Company's share-based compensation plans is net of the statutory withholding requirements that the Company pays on behalf of its employees. Although shares withheld are not issued, they are treated as common share repurchases in the Company's condensed consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting. These shares do not count against the authorized capacity under the Company's share repurchase program described above. During the three and nine months ended September 30, 2021 and 2020, the Company withheld shares on its vested restricted stock units and exercised SARs relating to its share-based compensation plans.

The Company reflects the aggregate purchase price of its common shares repurchased as an increase to shareholders' deficit. The Company generally allocated the purchase price of the repurchased shares to accumulated deficit, common shares, and additional paid-in capital, with the exception of treasury shares, which are recorded separately on the Company's condensed consolidated balance sheets.

For the nine months ended September 30, 2021 and 2020, the Company's share repurchases, inclusive of transaction costs, were \$881.1 million and \$818.5 million, respectively, under the Company's share repurchase programs, and \$28.1 million and \$26.6 million, respectively, due to shares withheld for tax purposes related to the Company's share-based compensation plans. For the nine months ended September 30, 2021 and 2020, the Company's total share repurchases, including shares withheld for tax purposes, were \$909.2 million and \$845.1 million, respectively, and have been recorded as an increase to shareholders' deficit within the Company's condensed consolidated balance sheets. The Company recorded \$844.2 million of total share repurchases within financing activities on its condensed consolidated statement of cash flows for the nine months ended September 30, 2020, which excludes \$0.9 million of fees related to share repurchases for which payment was made subsequent to the quarter end and therefore reflected as a liability within the Company's condensed consolidated balance sheet as of September 30, 2020.

Accumulated Other Comprehensive Loss

The following table summarizes changes in accumulated other comprehensive loss by component during the three months ended September 30, 2021 and 2020:

	Changes in Accumulated Other Comprehensive Loss by Component					
	September 30, 2021			September 30, 2020		
	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Derivatives	Total	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Total
	(in millions)					
Beginning balance	\$ (189.7)	\$ (2.6)	\$ (192.3)	\$ (251.5)	\$ 5.4	\$ (246.1)
Other comprehensive (loss) income before reclassifications, net of tax	(14.5)	0.9	(13.6)	19.5	0.6	20.1
Amounts reclassified from accumulated other comprehensive loss to income, net of tax(1)	—	1.1	1.1	—	(3.7)	(3.7)
Total other comprehensive (loss) income, net of reclassifications	(14.5)	2.0	(12.5)	19.5	(3.1)	16.4
Ending balance	\$ (204.2)	\$ (0.6)	\$ (204.8)	\$ (232.0)	\$ 2.3	\$ (229.7)

(1) See Note 9, *Derivative Instruments and Hedging Activities*, for information regarding the location in the condensed consolidated statements of income of gains (losses) reclassified from accumulated other comprehensive loss into income during the three months ended September 30, 2021 and 2020.

Other comprehensive loss before reclassifications was net of tax benefit of \$0.6 million for foreign currency translation adjustments for the three months ended September 30, 2021.

Other comprehensive loss before reclassifications was net of tax expense of \$0.7 million for foreign currency translation adjustments for the three months ended September 30, 2020. Amounts reclassified from accumulated other comprehensive loss to income was net of tax benefit of \$0.1 million for unrealized gain (loss) on derivatives for the three months ended September 30, 2020.

The following table summarizes changes in accumulated other comprehensive loss by component during the nine months ended September 30, 2021 and 2020:

	Changes in Accumulated Other Comprehensive Loss by Component					
	September 30, 2021			September 30, 2020		
	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Derivatives	Total	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Derivatives	Total
	(in millions)					
Beginning balance	\$ (178.4)	\$ (3.8)	\$ (182.2)	\$ (211.6)	\$ (0.9)	\$ (212.5)
Other comprehensive (loss) income before reclassifications, net of tax	(25.8)	0.7	(25.1)	(20.4)	5.7	(14.7)
Amounts reclassified from accumulated other comprehensive loss to income, net of tax(1)	—	2.5	2.5	—	(2.5)	(2.5)
Total other comprehensive (loss) income, net of reclassifications	(25.8)	3.2	(22.6)	(20.4)	3.2	(17.2)
Ending balance	\$ (204.2)	\$ (0.6)	\$ (204.8)	\$ (232.0)	\$ 2.3	\$ (229.7)

(1) See Note 9, *Derivative Instruments and Hedging Activities*, for information regarding the location in the condensed consolidated statements of income of gains (losses) reclassified from accumulated other comprehensive loss into income during the nine months ended September 30, 2021 and 2020.

Other comprehensive loss before reclassifications was net of tax expense of \$0.9 million for foreign currency translation adjustments for the nine months ended September 30, 2021.

Other comprehensive loss before reclassifications was net of tax benefit of \$4.1 million and \$0.5 million for foreign currency translation adjustments and unrealized gain (loss) on derivatives, respectively, for the nine months ended September 30, 2020. Amounts reclassified from accumulated other comprehensive loss to income was net of tax expense of \$0.1 million for unrealized gain (loss) on derivatives for the nine months ended September 30, 2020.

## 11. Earnings Per Share

Basic earnings per share represents net income divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share represents net income divided by the weighted-average number of common shares outstanding, inclusive of the effect of dilutive securities, such as outstanding SARs, stock units, and convertible notes.

The following are the common share amounts used to compute the basic and diluted earnings per share for each period:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	<i>(in millions)</i>			
Weighted-average shares used in basic computations	105.5	129.2	107.3	135.0
Dilutive effect of exercise of equity grants outstanding	2.3	3.3	2.5	2.8
Weighted-average shares used in diluted computations	<u>107.8</u>	<u>132.5</u>	<u>109.8</u>	<u>137.8</u>

There were an aggregate of 1.1 million and 0.8 million of equity grants, consisting of SARs and stock units, that were outstanding during the three months ended September 30, 2021 and 2020, respectively, and an aggregate of 1.1 million and 0.9 million of equity grants, consisting of SARs and stock units, that were outstanding during the nine months ended September 30, 2021 and 2020, respectively, but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive or the performance condition of the award had not been satisfied.

For the 2024 Convertible Notes, the Company has the intent and ability to settle the principal amount in cash and intends to settle the conversion feature for the amount above the conversion price, or the conversion spread, in common shares. The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted earnings per share, if applicable. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common shares for a given period exceeds the conversion price of the 2024 Convertible Notes. For the three and nine months ended September 30, 2021 and 2020, the 2024 Convertible Notes have been excluded from the computation of diluted earnings per share, as the effect would be anti-dilutive since the conversion price of the 2024 Convertible Notes exceeded the average market price of the Company's common shares for the three and nine months ended September 30, 2021 and 2020. The initial conversion rate and conversion price for the 2024 Convertible Notes are described further in Note 4, *Long-Term Debt*.

See Note 10, *Shareholders' Deficit*, for a discussion of how common shares repurchased by the Company's indirect wholly-owned subsidiary are treated under U.S. GAAP.

## 12. Fair Value Measurements

The Company applies the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, for its financial and non-financial assets and liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs for the asset or liability.

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its condensed consolidated financial statements. Foreign exchange currency contracts and interest rate swaps are valued using standard calculations and models. Foreign exchange currency contracts are valued primarily based on inputs such as observable forward rates, spot rates and foreign currency exchange rates at the reporting period ended date. Interest rate swaps are valued primarily based on inputs such as LIBOR and swap yield curves at the reporting period ended date. The Company's derivative assets and liabilities are measured at fair value and consisted of Level 2 inputs and their amounts are shown below at their gross values as of September 30, 2021 and December 31, 2020:

	Significant Other Observable Inputs (Level 2) Fair Value as of September 30, 2021	Significant Other Observable Inputs (Level 2) Fair Value as of December 31, 2020	Balance Sheet Location
	<i>(in millions)</i>		
<b>ASSETS:</b>			
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ 0.3	\$ —	Prepaid expenses and other current assets
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange currency contracts	6.5	9.4	Prepaid expenses and other current assets
	<u>\$ 6.8</u>	<u>\$ 9.4</u>	
<b>LIABILITIES:</b>			
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange currency contracts relating to inventory and intercompany management fee hedges	\$ 0.9	\$ 3.9	Other current liabilities
Interest rate swaps	0.4	1.0	Other current liabilities
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange currency contracts	2.2	3.2	Other current liabilities
	<u>\$ 3.5</u>	<u>\$ 8.1</u>	

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are comprised of money market funds and foreign and domestic bank accounts. These cash and cash equivalents are valued based on Level 1 inputs which consist of quoted prices in active markets. To reduce its credit risk, the Company monitors the credit standing of the financial institutions that hold the Company's cash and cash equivalents.

The Company's deferred compensation plan assets consist of Company-owned life insurance policies. As these policies are recorded at their cash surrender value, they are not required to be included in the fair value table above. See Note 6, *Employee Compensation Plans*, to the Consolidated Financial Statements included in the 2020 10-K for a further description of the Company's deferred compensation plan assets.

The following tables summarize the offsetting of the fair values of the Company's derivative assets and derivative liabilities for presentation in the Company's condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020:

	Gross Amounts of Recognized Assets	Offsetting of Derivative Assets Gross Amounts Offset in the Balance Sheet <i>(in millions)</i>	Net Amounts of Assets Presented in the Balance Sheet
<b>September 30, 2021</b>			
Foreign exchange currency contracts	\$ 6.8	\$ (1.9)	\$ 4.9
Total	<u>\$ 6.8</u>	<u>\$ (1.9)</u>	<u>\$ 4.9</u>
<b>December 31, 2020</b>			
Foreign exchange currency contracts	\$ 9.4	\$ (1.8)	\$ 7.6
Total	<u>\$ 9.4</u>	<u>\$ (1.8)</u>	<u>\$ 7.6</u>



	Offsetting of Derivative Liabilities		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet <i>(in millions)</i>	Net Amounts of Liabilities Presented in the Balance Sheet
<b>September 30, 2021</b>			
Foreign exchange currency contracts	\$ 3.1	\$ (1.9)	\$ 1.2
Interest rate swaps	0.4	—	0.4
Total	<u>\$ 3.5</u>	<u>\$ (1.9)</u>	<u>\$ 1.6</u>
<b>December 31, 2020</b>			
Foreign exchange currency contracts	\$ 7.1	\$ (1.8)	\$ 5.3
Interest rate swaps	1.0	—	1.0
Total	<u>\$ 8.1</u>	<u>\$ (1.8)</u>	<u>\$ 6.3</u>

The Company offsets all of its derivative assets and derivative liabilities in its condensed consolidated balance sheets to the extent it maintains master netting arrangements with related financial institutions. As of September 30, 2021 and December 31, 2020, all of the Company's derivatives were subject to master netting arrangements and no collateralization was required for the Company's derivative assets and derivative liabilities.

### 13. Detail of Certain Balance Sheet Accounts

#### *Other Assets*

The Other assets on the Company's accompanying condensed consolidated balance sheets include deferred compensation plan assets of \$46.7 million and \$43.8 million and deferred tax assets of \$90.5 million and \$96.0 million as of September 30, 2021 and December 31, 2020, respectively.

#### *Other Current Liabilities*

Other current liabilities consist of the following:

	September 30, 2021	December 31, 2020
	<i>(in millions)</i>	
Accrued compensation	\$ 152.6	\$ 163.8
Accrued service fees to China independent service providers	50.5	63.3
Accrued advertising, events, and promotion expenses	56.0	67.6
Current operating lease liabilities	40.3	35.5
Advance sales deposits	90.1	68.5
Income taxes payable	15.0	23.0
Other accrued liabilities	158.7	235.8
Total	<u>\$ 563.2</u>	<u>\$ 657.5</u>

#### *Other Non-Current Liabilities*

The Other non-current liabilities on the Company's accompanying condensed consolidated balance sheets include deferred compensation plan liabilities of \$79.9 million and \$72.3 million and deferred income tax liabilities of \$39.6 million and \$39.3 million as of September 30, 2021 and December 31, 2020, respectively. See Note 6, *Employee Compensation Plans*, to the Consolidated Financial Statements included in the 2020 10-K for a further description of the Company's deferred compensation plan assets and liabilities.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with other information, including our condensed consolidated financial statements and related notes included in Part I, Item 1, Financial Statements, and Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q, and our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2020, or the 2020 10-K. Unless the context otherwise requires, all references herein to the "Company," "we," "us" or "our," or similar terms, refer to Herbalife Nutrition Ltd., a Cayman Islands exempted company with limited liability, and its consolidated subsidiaries.

### Overview

We are a global nutrition company that sells weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products to and through independent members, or Members. In China, we sell our products to and through independent service providers and sales representatives to customers and preferred customers, as well as through Company-operated retail platforms when necessary. We refer to Members that distribute our products and achieve certain qualification requirements as "sales leaders."

We provide high-quality, science-backed products to Members and their customers who seek a healthy lifestyle and we also offer a business opportunity to those Members who seek additional income. We believe enhanced consumer awareness and demand for our products due to global trends such as the obesity epidemic, increasing interest in a fit and active lifestyle, living healthier and the rise of entrepreneurship, coupled with the effectiveness of personalized selling through a direct sales channel, have been the primary reasons for our continued success.

Our products are grouped in four principal categories: weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition, along with literature, promotional, and other items. Our products are often sold through a series of related products and literature designed to simplify weight management and nutrition for consumers and maximize our Members' cross-selling opportunities.

While we continue to monitor the current global financial environment and the impacts of the COVID-19 pandemic, we remain focused on the opportunities and challenges in retailing our products and enhancing the customer experience, sponsoring and retaining Members, improving Member productivity, further penetrating existing markets, globalizing successful Daily Methods of Operation, or DMOs, such as Nutrition Clubs, Fit Clubs, and Weight Loss Challenges, introducing new products and globalizing existing products, developing niche market segments and further investing in our infrastructure.

We sell our products in six geographic regions:

- ① North America;
- ② Mexico;
- ③ South and Central America;
- ④ EMEA, which consists of Europe, the Middle East, and Africa;
- ⑤ Asia Pacific (excluding China); and
- ⑥ China.

On July 15, 2016, we reached a settlement with the U.S. Federal Trade Commission, or FTC, and entered into the Consent Order, which resolved the FTC's multi-year investigation of the Company. We continue to monitor the impact of the Consent Order and our board of directors established the Implementation Oversight Committee in connection with the Consent Order, and more recently, our Audit Committee assumed oversight of continued compliance with the Consent Order. While we currently do not expect the settlement to have a long-term and materially adverse impact on our business and our Member base, our business and our Member base, particularly in the U.S., may be negatively impacted. The terms of the Consent Order do not change our going to market through direct selling by independent distributors, and compensating those distributors based upon the product they and their sales organization sell. See Part II, Item 1A, *Risk Factors*, of this Quarterly Report on Form 10-Q for a discussion of risks related to the settlement with the FTC.

## COVID-19 Pandemic

During March 2020, the World Health Organization declared the outbreak of coronavirus disease 2019, or COVID-19, as a pandemic. The outbreak and subsequent global spread of the virus has impacted the general public, companies and state, local and national governments and economies worldwide, as well as global financial markets, and caused unemployment to increase. Public health organizations and international, federal, state and local governments have implemented measures to combat the spread of COVID-19, including restrictions on movement such as quarantines, “stay-at-home” orders and social distancing ordinances and restricting or prohibiting outright some or all forms of commercial and business activity. These measures, or others that may be implemented in the future, although temporary in nature, have continued intermittently for many markets.

Our business and operations have been affected by the pandemic in manners, in some cases adversely, and degrees that vary by market and we expect that the effects may extend through 2021 and possibly beyond. For the health and safety of our employees, our Members, and their customers, we implemented temporary access restrictions at many of our physical business locations and locations where Members conduct their business activities, some of which measures continue. Generally, we have been able to satisfy current levels of demand. While demand for our nutritional products continues to be at or above pre-pandemic levels and pandemic constraints have been lessened in most markets, including by the designation of our nutritional business as “essential” or other similar characterization, our operations have been and continue to be disrupted. The most significant impacts we have seen, depending on market, include:

- ⌚ Broad-based supply chain challenges, including increased costs in freight, labor, and certain raw materials, and constrained ability to deliver product to Members and/or have Members pick product up from our access points due to facility closures and other precautionary measures we have implemented;
- ⌚ Restrictions or outright prohibitions on in-person training and promotional meetings and events for Members that are a key aspect of our business model, such as our annual regional Extravaganzas;
- ⌚ Constrained ability of Members to have face-to-face contact with their customers, including at Nutrition Clubs; and
- ⌚ Slowed office operations as many of our employees have limited access to their regular place of employment.

We and our Members have responded to the pandemic and its impacts on our business and theirs by adapting operations and taking a number of proactive measures to mitigate those impacts. The most significant measures include:

- ⌚ Adapting product access to the varying market-specific challenges, including shifting to more home product delivery from Member pick-up, and shifting to online or phone orders only from in-person ordering;
- ⌚ Enhancing our training and promotion of technological tools offered to support Members’ online operations and accelerating the launch of certain functionalities, such as functions that facilitate our Members’ ability to communicate and transact with Nutrition Club customers;
- ⌚ Members continuing to or increasing the ways they leverage the Internet and social media for customer contact including training, order-taking, and acceptance of payment;
- ⌚ Member-operated Nutrition Clubs adding to or shifting from on-site offerings of single servings to carry-out and home delivery of single servings, as well as sales of fully packaged products;
- ⌚ Instituting product purchase limitations for certain in-demand products to help ensure as many Members and their customers have fair access to these products and to minimize out-of-stock conditions; and
- ⌚ Physical changes at our major facilities, such as our manufacturing plants and distribution centers, including pre-entry temperature checks, face masks for employees, and plexiglass barriers, and employees working from home where possible rather than at company offices.

We believe our cash on hand as of September 30, 2021 and as of the date of this filing, combined with cash flows from operating activities, is sufficient to meet our foreseeable needs for the next twelve months. We also have access to our revolving credit facility to supplement our cash-generating ability if necessary.

Although we believe that our responsive measures have been effective in limiting the adverse impact of the pandemic on most markets, the ongoing impact of the COVID-19 pandemic will affect our business, financial condition, and results of operations in future quarters, including their comparability to prior periods. Given the unpredictable, unprecedented, and fluid nature of the pandemic and its economic consequences, we are unable to predict the duration and extent to which the pandemic and its related impacts will impact our business, financial condition, and results of operations. A more detailed discussion of the pandemic’s impact on net sales for the third quarter and first nine months of 2021 and its expected impact in future periods, as well as the impacts specific to each geographic region, are discussed further in the *Sales by Geographic Region* section below. See Part II, Item 1A, *Risk Factors*, of this Quarterly Report on Form 10-Q for a further discussion of risks related to the COVID-19 pandemic.

## Volume Points by Geographic Region

A key non-financial measure we focus on is Volume Points on a Royalty Basis, or Volume Points, which is essentially our weighted-average measure of product sales volume. Volume Points, which are unaffected by exchange rates or price changes, are used by management as a proxy for sales trends because in general, excluding the impact of price changes, an increase in Volume Points in a particular geographic region or country indicates an increase in our local currency net sales while a decrease in Volume Points in a particular geographic region or country indicates a decrease in our local currency net sales. The criteria we use to determine how and when we recognize Volume Points are not identical to our revenue recognition policies under U.S. GAAP. Unlike net sales, which are generally recognized when the product is delivered and when control passes to the Member, as discussed in greater detail in Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, we recognize Volume Points when a Member pays for the order, which is generally prior to the product being delivered. Further, the periods in which Volume Points are tracked can vary slightly from the fiscal periods for which we report our results under U.S. GAAP. Therefore, there can be timing differences between the product orders for which net sales are recognized and for which Volume Points are recognized within a given period. However, historically these timing differences generally have been immaterial in the context of using changes in Volume Points as a proxy to explain volume-driven changes in net sales.

The specific number of Volume Points assigned to a product, which is generally consistent across all markets, is based on a Volume Point to suggested retail price ratio for similar products. If a product is available in different quantities, the various sizes will have different Volume Point values. In general, once assigned, a Volume Point value is consistent in each region and country and does not change from year to year. We use Volume Points for Member qualification and recognition purposes, as well as a proxy for sales trends, and therefore we generally keep Volume Points for a similar or like product consistent on a global basis. However, because Volume Points are a function of value rather than product type or size, they are not a reliable measure for product mix. As an example, an increase in Volume Points in a specific country or region could mean a significant increase in sales of less expensive products or a marginal increase in sales of more expensive products.

	Three Months Ended			Nine Months Ended		
	September 30, 2021	September 30, 2020	% Change	September 30, 2021	September 30, 2020	% Change
	<i>(Volume Points in millions)</i>					
North America	438.4	501.0	(12.5)%	1,409.8	1,349.4	4.5%
Mexico	208.3	232.3	(10.3)%	640.8	655.6	(2.3)%
South and Central America	124.4	150.7	(17.5)%	374.3	386.5	(3.2)%
EMEA	390.3	423.1	(7.8)%	1,260.0	1,166.5	8.0%
Asia Pacific	489.5	448.9	9.0%	1,469.5	1,211.3	21.3%
China	91.6	143.5	(36.2)%	299.0	412.8	(27.6)%
Worldwide	<u>1,742.5</u>	<u>1,899.5</u>	(8.3)%	<u>5,453.4</u>	<u>5,182.1</u>	5.2%

Volume Points decreased 8.3% and increased 5.2% for the three and nine months ended September 30, 2021, including a mixed impact of COVID-19 pandemic conditions across our markets, after having increased 23.2% and 13.8% for the same periods in 2020. The comparative 2021 and 2020 results by region discussed below are greatly impacted, we believe, by the significance and timing of pandemic conditions and our and our Members' ability to respond to the conditions, which varied by region and by market within regions. Although pandemic conditions had adverse operational impacts across all markets, we believe during certain periods our Members in certain markets where we saw increased net sales and Volume Point growth for some periods were more focused on their business due to those conditions, particularly the North America region and certain EMEA markets during the second half of 2020 and first half of 2021.

We believe North America's Volume Point decrease for the third quarter of 2021, after a significant year-over-year increase for the third quarter of 2020, reflects in part the comparison to a 2020 base period that saw a record level of sales. We believe the Volume Point increase for the year-to-date period versus the 2020 period, although well below the rate of year-over-year increase for the 2020 period, reflects both the continuing success and expansion of our Distributors as well as the enhanced motivation and focus of our Members due to pandemic conditions seen through the first half of 2021. We believe Mexico's Volume Point decreases for the third quarter and first nine months of 2021, after a year-over-year increase for the third quarter of 2020 and a small decline for the first nine months of 2020, is due to ongoing difficult economic conditions in the market, exacerbated by the adverse impact of intermittent pandemic-related constraints.

The South and Central America region saw a significant decrease in Volume Points for the third quarter of 2021 versus the prior-year period, after a significant year-over-year increase for the third quarter of 2020. The current-year quarter was impacted by continuing intermittent adverse impacts of the pandemic seen across most markets in the region. The first nine months of 2021 saw a small Volume Point decline versus the 2020 period after essentially even year-over-year results for the 2020 period. The volume decline was greatest in Brazil, our largest market in the region, as it saw adverse pandemic effects as well as longer-term negative momentum. EMEA has seen Volume Point growth in recent years, a result we believe of customer-oriented efforts including Member training, brand awareness, and product line expansion, as well as Member success in leveraging online approaches and new Member recruitment, plus, during the second half of 2020 and first half of 2021, enhanced motivation and focus of our Members due to pandemic conditions. Volume Points declined significantly, however, for the third quarter versus the 2020 period due in part to comparison to base periods that saw record levels of sales.

The Asia Pacific region saw Volume Point increases for the third quarter and first nine months of 2021 versus the prior-year periods, led by the India market and continuing favorable long-term trends seen in the region. The third quarter Volume Point growth was below the rate seen for the 2020 period due to intermittent adverse pandemic conditions in most markets. China saw significant Volume Point decreases for the third quarter and first nine months of 2021, versus increases for the prior-year periods. Results for the 2021 periods reflect some adverse near-term impact of efforts we are making to ultimately strengthen the consistency and sustainability of our business in China and the continuing impact on sales and training meetings of pandemic conditions and the residual effects of the Chinese government's 100-day review of the health product industry, or the Review, which concluded in April 2019. Also notable is that the growth rates for the 2020 periods were favorably impacted by weakened 2019 base periods due to disruption from Review.

Across most markets, we expect COVID-19 pandemic conditions to continue to impact Volume Point results; however, we are unable to predict the duration or magnitude of these effects. Results and more regional or country-specific impacts of the COVID-19 pandemic are discussed further below in the applicable sections of *Sales by Geographic Region*.

## Presentation

“Net sales” represent product sales to our Members, net of “*distributor allowances*,” and inclusive of any shipping and handling revenues, as described further below.

Our Members purchase product from us at a suggested retail price, less discounts referred to as “*distributor allowance*.” Each Member’s level of discount is determined by qualification based on their volume of purchases. In cases where a Member has qualified for less than the maximum discount, the remaining discount, which we also refer to as a wholesale commission, is received by their sponsoring Members. Distributor allowances may also vary by country depending upon regulatory restrictions that limit or otherwise restrict distributor allowances. We also offer reduced distributor allowances with respect to certain products worldwide.

For U.S. GAAP purposes, shipping and handling services relating to product sales are recognized as fulfillment activities on our performance obligation to transfer products and are therefore recorded within net sales as part of product sales and are not considered as separate revenues.

In certain geographic markets, we have introduced segmentation of our Member base into two categories: “preferred members” – who are simply consumers who wish to purchase product for their own household use, and “distributors” – who are Members who also wish to resell products or build a sales organization. Additionally, in certain markets we are simplifying our pricing by eliminating certain shipping and handling charges and recovering those costs within suggested retail price. As we continue to extend the segmentation of our distributors and preferred members to additional geographic markets and consider other pricing simplification efforts for our Members, the utility of, and therefore management’s reliance on, total retail value has decreased and we have discontinued the disclosure of this non-GAAP retail value information.

Our international operations have provided and will continue to provide a significant portion of our total net sales. As a result, total net sales will continue to be affected by fluctuations in the U.S. dollar against foreign currencies. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, in addition to comparing the percent change in net sales from one period to another in U.S. dollars, we also compare the percent change in net sales from one period to another period using “*net sales in local currency*.” Net sales in local currency is not a U.S. GAAP financial measure. Net sales in local currency removes from net sales in U.S. dollars the impact of changes in exchange rates between the U.S. dollar and the local currencies of our foreign subsidiaries, by translating the current period net sales into U.S. dollars using the same foreign currency exchange rates that were used to translate the net sales for the previous comparable period. We believe presenting net sales in local currency is useful to investors because it allows a meaningful comparison of net sales of our foreign operations from period to period. However, net sales in local currency measures should not be considered in isolation or as an alternative to net sales in U.S. dollar measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

Additionally, the impact of foreign currency fluctuations in Venezuela and the price increases we implement as a result of the highly inflationary economy in that market can each, when considered in isolation, have a disproportionately large impact to our consolidated results despite the offsetting nature of these drivers and that net sales in Venezuela, which represent less than 1% of our consolidated net sales, are not material to our consolidated results. Therefore, in certain instances, we believe it is helpful to provide additional information with respect to these factors as reported and excluding the impact of Venezuela to illustrate the disproportionate nature of Venezuela's individual pricing and foreign exchange impact to our consolidated results. However, excluding the impact of Venezuela from these measures is not in accordance with U.S. GAAP and should not be considered in isolation or as an alternative to the presentation and discussion thereof calculated in accordance with U.S. GAAP.

Our "gross profit" consists of net sales less "cost of sales," which represents our manufacturing costs, the price we pay to our raw material suppliers and manufacturers of our products as well as shipping and handling costs including duties, tariffs, and similar expenses.

While certain Members may profit from their activities by reselling our products for amounts greater than the prices they pay us, Members that develop, retain, and manage other Members may earn additional compensation for those activities, which we refer to as "Royalty overrides." Royalty overrides are a significant operating expense and consist of:

- ① royalty overrides and production bonuses;
- ① the Mark Hughes bonus payable to some of our most senior Members; and
- ① other discretionary incentive cash bonuses to qualifying Members.

Royalty overrides are compensation to Members for the development, retention and improved productivity of their sales organizations and are paid to several levels of Members on each sale. Royalty overrides are compensation for services rendered to us and, as such, are recorded as an operating expense.

In China, our independent service providers are compensated for marketing, sales support, and other services instead of the distributor allowances and royalty overrides utilized in our global Marketing Plan. Service fees to China independent service providers are included in selling, general, and administrative expenses.

Because of local country regulatory constraints, we may be required to modify our Member incentive plans as described above. We also pay reduced royalty overrides with respect to certain products worldwide. Consequently, the total Royalty override percentage may vary over time.

Our "contribution margins" consist of net sales less cost of sales and Royalty overrides.

"Selling, general, and administrative expenses" represent our operating expenses, which include labor and benefits, service fees to China independent service providers, sales events, professional fees, travel and entertainment, Member promotions, occupancy costs, communication costs, bank fees, depreciation and amortization, foreign exchange gains and losses, and other miscellaneous operating expenses.

Our "other operating income" consists of government grant income related to China.

Our "other expense, net" consists of non-operating income and expenses such as gains or losses on extinguishment of debt.

Most of our sales to Members outside the United States are made in the respective local currencies. In preparing our financial statements, we translate revenues into U.S. dollars using average exchange rates. Additionally, the majority of our purchases from our suppliers generally are made in U.S. dollars. Consequently, a strengthening of the U.S. dollar versus a foreign currency can have a negative impact on our reported sales and contribution margins and can generate foreign currency losses on intercompany transactions. Foreign currency exchange rates can fluctuate significantly. From time to time, we enter into foreign currency derivatives to partially mitigate our foreign currency exchange risk as discussed in further detail in Part I, Item 3, *Quantitative and Qualitative Disclosures about Market Risk*, of this Quarterly Report on Form 10-Q.

## Summary Financial Results

Net sales for the three and nine months ended September 30, 2021 were \$1,430.9 million and \$4,484.8 million, respectively. Net sales decreased \$90.9 million, or 6.0% (\$90.8 million, or 6.0% excluding Venezuela), and increased \$353.7 million, or 8.6% (\$353.7 million, or 8.6% excluding Venezuela), for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 7.3% and increased 6.2% (decreased 7.6% and increased 5.7% excluding Venezuela) for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 6.0% decrease in net sales for the three months ended September 30, 2021 was primarily driven by a decrease in sales volume, as indicated by an 8.3% decrease in Volume Points, and a 2.5% unfavorable impact of country sales mix, partially offset by a 2.8% favorable impact of price increases (2.5% favorable impact excluding Venezuela) and a 1.3% favorable impact of fluctuations in foreign currency exchange rates (1.6% favorable impact excluding Venezuela). The 8.6% increase in net sales for the nine months ended September 30, 2021 was primarily driven by an increase in sales volume, as indicated by a 5.2% increase in Volume Points, a 3.0% favorable impact of price increases (2.4% favorable impact excluding Venezuela), and a 2.4% favorable impact of fluctuations in foreign currency exchange rates (2.9% favorable impact excluding Venezuela), partially offset by a 2.8% unfavorable impact of country sales mix.

Net income for the three and nine months ended September 30, 2021 was \$117.4 million, or \$1.09 per diluted share, and \$409.0 million, or \$3.73 per diluted share, respectively. Net income decreased \$20.7 million, or 15.0%, and increased \$110.2 million, or 36.9%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The decrease in net income for the three months ended September 30, 2021 was mainly due to \$60.3 million lower contribution margin driven by lower net sales, partially offset by \$43.4 million lower selling, general, and administrative expenses. The increase in net income for the nine months ended September 30, 2021 was mainly due to \$93.6 million higher contribution margin driven by higher net sales and \$60.6 million lower selling, general, and administrative expenses driven by \$83.1 million of expenses relating to the SEC and DOJ investigations relating to the FCPA matter in China in 2020 (See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q), partially offset by a \$24.6 million loss on extinguishment of our 2026 Notes (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q) and \$23.0 million higher interest expense, net.

Net income for the three months ended September 30, 2021 included a \$6.0 million pre-tax unfavorable impact (\$6.5 million post-tax) of non-cash interest expense related to the 2024 Convertible Notes (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q); a \$3.9 million pre-tax unfavorable impact (\$3.7 million post-tax) of transformation initiative expenses, primarily relating to professional fees; a \$2.5 million pre-tax unfavorable impact (\$2.3 million post-tax) from expenses related to the COVID-19 pandemic, and such expenses are expected to continue in future periods; a \$0.6 million pre-tax unfavorable impact (\$0.5 million post-tax) of debt issuance costs related to the amendment of our 2018 Credit Facility (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q); a \$0.2 million favorable impact of loss on extinguishment of our 2026 Notes; and a \$0.1 million unfavorable impact of non-income tax items.

Net income for the nine months ended September 30, 2021 included a \$24.6 million pre-tax unfavorable impact (\$19.1 million post-tax) of loss on extinguishment of our 2026 Notes; a \$17.6 million pre-tax unfavorable impact (\$18.3 million post-tax) of non-cash interest expense related to the 2024 Convertible Notes; an \$11.8 million pre-tax unfavorable impact (\$9.7 million post-tax) from expenses related to the COVID-19 pandemic, and such expenses are expected to continue in future periods; a \$7.6 million pre-tax unfavorable impact (\$6.9 million post-tax) of transformation initiative expenses, primarily relating to professional fees; a \$7.4 million pre-tax favorable impact (\$5.6 million post-tax) of net benefit on non-income tax items; and a \$1.7 million pre-tax unfavorable impact (\$1.4 million post-tax) of debt issuance costs related to the amendment of our 2018 Credit Facility.

The income tax impact of the expenses discussed above is based on forecasted items affecting our 2021 full year effective tax rate. Adjustments to forecasted items unrelated to these expenses, as well as impacts related to interim reporting, will have an effect on the income tax impact of these items in subsequent periods.

Net income for the three months ended September 30, 2020 included a \$5.5 million pre-tax unfavorable impact (\$5.1 million post-tax) of non-cash interest expense related to the 2024 Convertible Notes; a \$4.7 million pre-tax unfavorable impact (\$4.4 million post-tax) from expenses related to the COVID-19 pandemic; and a \$0.4 million pre-tax unfavorable impact (\$4.7 million post-tax) from expenses related to regulatory inquiries.

Net income for the nine months ended September 30, 2020 included an \$85.7 million unfavorable impact (\$81.0 million post-tax) from expenses related to regulatory inquiries and a legal accrual, which includes \$83.1 million of expenses relating to the SEC and DOJ investigations relating to the FCPA matter in China; a \$16.6 million pre-tax unfavorable impact (\$14.6 million post-tax) from expenses related to the COVID-19 pandemic; a \$16.2 million pre-tax unfavorable impact (\$16.4 million post-tax) of non-cash interest expense related to the 2024 Convertible Notes; and a \$0.5 million pre-tax unfavorable impact (\$0.4 million post-tax) of debt issuance costs related to the amendment of our 2018 Credit Facility.

## Results of Operations

Our results of operations for the periods below are not necessarily indicative of results of operations for future periods, which depend upon numerous factors, including our ability to sponsor Members and retain sales leaders, further penetrate existing markets, introduce new products and programs that will help our Members increase their retail efforts and develop niche market segments.

The following table sets forth selected results of our operations expressed as a percentage of net sales for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Operations:</b>				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	21.3	21.2	21.0	20.4
Gross profit	78.7	78.8	79.0	79.6
Royalty overrides(1)	31.5	30.4	31.4	30.3
Selling, general, and administrative expenses(1)	34.0	34.8	33.4	37.7
Other operating income	—	—	(0.3 )	(0.3 )
Operating income	13.2	13.6	14.5	11.9
Interest expense, net	2.6	2.3	2.5	2.1
Other expense, net	—	—	0.6	—
Income before income taxes	10.6	11.3	11.4	9.8
Income taxes	2.4	2.2	2.3	2.6
Net income	8.2 %	9.1 %	9.1 %	7.2 %

(1) Service fees to our independent service providers in China are included in selling, general, and administrative expenses while Member compensation for all other countries is included in Royalty overrides.

## Reporting Segment Results

We aggregate our operating segments, excluding China, into a reporting segment, or the Primary Reporting Segment. The Primary Reporting Segment includes the North America, Mexico, South and Central America, EMEA, and Asia Pacific regions. China has been identified as a separate reporting segment as it does not meet the criteria for aggregation. See Note 6, *Segment Information*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for further discussion of our reporting segments. See below for discussions of net sales and contribution margin by our reporting segments.

### *Net Sales by Reporting Segment*

The Primary Reporting Segment reported net sales of \$1,276.9 million and \$3,985.7 million for the three and nine months ended September 30, 2021, respectively, representing a decrease of \$24.9 million, or 1.9% (\$24.8 million, or 1.9% excluding Venezuela), and an increase of \$474.0 million, or 13.5% (\$474.0 million, or 13.5% excluding Venezuela), for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 2.7% and increased 11.8% (decreased 3.1% and increased 11.2% excluding Venezuela) for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 1.9% decrease in net sales for the three months ended September 30, 2021 was primarily due to a decrease in sales volume, as indicated by a 6.0% decrease in Volume Points, partially offset by a 3.3% favorable impact of price increases (2.9% favorable impact excluding Venezuela) and a 0.8% favorable impact of fluctuations in foreign currency exchange rates (1.2% favorable impact excluding Venezuela). The 13.5% increase in net sales for the nine months ended September 30, 2021 was primarily due to an increase in sales volume, as indicated by an 8.1% increase in Volume Points, a 3.5% favorable impact of price increases (2.9% favorable impact excluding Venezuela), and a 1.7% favorable impact of fluctuations in foreign currency exchange rates (2.3% favorable impact excluding Venezuela).

For a discussion of China's net sales for the three and nine months ended September 30, 2021, see the China section of *Sales by Geographic Region* below.

### *Contribution Margin by Reporting Segment*

As discussed above under "Presentation," contribution margin consists of net sales less cost of sales and Royalty overrides.



The Primary Reporting Segment reported contribution margin of \$538.8 million, or 42.2% of net sales, and \$1,690.3 million, or 42.4% of net sales, for the three and nine months ended September 30, 2021, respectively, representing an increase of \$0.6 million, or 0.1% (\$0.3 million, or 0.1% excluding Venezuela), and \$204.9 million, or 13.8% (\$204.4 million, or 13.8% excluding Venezuela), for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 0.1% increase in contribution margin for the three months ended September 30, 2021 was primarily the result of a 5.4% favorable impact of price increases (4.8% favorable impact excluding Venezuela), partially offset by a 6.0% unfavorable impact of volume decreases. The 13.8% increase in contribution margin for the nine months ended September 30, 2021 was primarily the result of an 8.1% favorable impact of volume increases and a 5.6% favorable impact of price increases (4.6% favorable impact excluding Venezuela).

China reported contribution margin of \$136.9 million and \$442.0 million for the three and nine months ended September 30, 2021, respectively, representing a decrease of \$60.9 million, or 30.8%, and \$111.3 million, or 20.1%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 30.8% decrease in contribution margin for the three months ended September 30, 2021 was primarily the result of a 36.2% unfavorable impact of volume decreases, partially offset by a 5.3% favorable impact of fluctuations in foreign currency exchange rates. The 20.1% decrease in contribution margin for the nine months ended September 30, 2021 was primarily the result of a 27.6% unfavorable impact of volume decreases, partially offset by a 6.1% favorable impact of fluctuations in foreign currency exchange rates.

### Sales by Geographic Region

Net sales by geographic region were as follows:

	Three Months Ended			Nine Months Ended		
	September 30, 2021	September 30, 2020	% Change	September 30, 2021	September 30, 2020	% Change
	<i>(Dollars in millions)</i>					
North America	\$ 354.8	\$ 398.7	(11.0)%	\$ 1,126.6	\$ 1,062.4	6.0%
Mexico	117.5	110.3	6.5%	354.5	321.6	10.2%
South and Central America	89.2	102.7	(13.1)%	272.0	264.6	2.8%
EMEA	321.9	334.3	(3.7)%	1,043.8	893.3	16.8%
Asia Pacific	393.5	355.8	10.6%	1,188.8	969.8	22.6%
China	154.0	220.0	(30.0)%	499.1	619.4	(19.4)%
Worldwide	<u>\$ 1,430.9</u>	<u>\$ 1,521.8</u>	(6.0)%	<u>\$ 4,484.8</u>	<u>\$ 4,131.1</u>	8.6%

Changes in net sales are directly associated with the retailing of our products, recruitment of new Members, and retention of sales leaders. Our strategies involve providing quality products, improved DMOs, including daily consumption approaches such as Nutrition Clubs, easier access to product, systemized training and education of Members on our products and methods, leveraging technology to make it easier for our Members to do business, and continued promotion and branding of Herbalife products.

Management's role, in-country and at the region and corporate level, is to provide Members with a competitive, broad, and innovative product line, offer leading-edge business tools and technology services, and encourage strong teamwork and Member leadership to make doing business with Herbalife simple. We have provided to our Members enhanced technology tools for ordering, business performance, and customer retailing to make it easier for them to do business with us and to optimize their customers' experiences. Management uses the Marketing Plan, which reflects the rules for our global network marketing organization that specify the qualification requirements and general compensation structure for Members, coupled with educational and motivational programs and promotions to encourage Members to increase retailing, retention, and recruiting, which in turn affect net sales. Such programs include sales events such as Extravaganzas, Leadership Development Weekends and World Team Schools where large groups of Members network with other Members, learn retailing, retention, and recruiting techniques from our leading Members, and become more familiar with how to market and sell our products and business opportunities. Accordingly, management believes that these development and motivation programs increase the productivity of the sales leader network. The expenses for such programs are included in selling, general, and administrative expenses. We also use event and non-event product promotions to motivate Members to increase retailing, retention, and recruiting activities. These promotions have prizes ranging from qualifying for events to product prizes and vacations. A program that we have seen success with in many markets is the Member Activation Program, under which new Members, who order a modest number of Volume Points in each of their first three months, earn a prize. Our objective is to improve the quality of sales leaders by encouraging new Members to begin acquiring retail customers before attempting to qualify for sales leader status. Additionally, in certain markets we have begun to utilize the segmentation of our Member base into "preferred members" and "distributors" for more targeted and efficient communication and promotions for these two differently motivated types of Members. In certain other markets that have not been segmented, we have begun using Member data to similarly categorize Members for communication and promotion efforts.

DMOs are being generated in many of our markets and are globalized where applicable through the combined efforts of Members and country, regional and corporate management. While we support a number of different DMOs, one of the most popular DMOs is the daily consumption DMO. Under our traditional DMO, a Member typically sells to its customers on a somewhat infrequent basis (e.g., monthly) which provides fewer opportunities for interaction with their customers. Under a daily consumption DMO, a Member interacts with its customers on a more frequent basis, including such activities as weekly weigh-ins, which enables the Member to better educate and advise customers about nutrition and the proper use of the products and helps promote daily usage as well, thereby helping the Member grow his or her business. Specific examples of globalized DMOs include the Nutrition Club concept in Mexico, the Healthy Breakfast concept in Russia, and the Weight Loss Challenge in the United States. Management's strategy is to review the applicability of expanding successful country initiatives throughout a region, and where appropriate, support the globalization of these initiatives.

As discussed further by market below, the Company has responded to COVID-19 pandemic conditions by adapting how it communicates with, services, and transacts with our Members and our Members have similarly adapted their DMOs and other activities. These responsive actions have varied by region and by market due to the differing market- and regional-specific impacts of the pandemic and the conditions and challenges unique to a particular market or region independent of the impacts of the pandemic. The factors described above help Members increase their business, which in turn helps drive Volume Point growth in our business, and thus, net sales growth. The discussion below of net sales details some of the specific drivers of changes in our business and causes of sales fluctuations during the three and nine months ended September 30, 2021 as compared to the same periods in 2020, as well as the unique growth or contraction factors specific to certain geographic regions or significant markets within a region during these periods. Net sales fluctuations, both Company-wide and within a particular geographic region or market, are primarily the result of changes in volume, changes in prices, or changes in foreign currency translation rates. The discussion of changes in net sales quantifies the impact of those drivers that are quantifiable such as changes in foreign currency translation rates, and cites the estimated impact of any significant price changes. The remaining drivers, which management believes are the primary drivers of changes in volume, are typically qualitative factors whose impact cannot be quantified. We use Volume Points as an indication for changes in sales volume.

We expect the impact of the COVID-19 pandemic to impact our results of operations in future quarters and their comparability to prior periods, both on a consolidated basis and at the regional level. However, given the unpredictable, unprecedented, and fluid nature of the pandemic and its economic consequences, we are unable to predict the extent to which the pandemic and its related impacts will adversely impact our business, financial condition, and results of operations, including the impact it may have on our regions and individual markets. See below for a more detailed discussion of the pandemic's impact on net sales for the third quarter and first nine months of 2021 for each geographic region and individual market.

#### *North America*

The North America region reported net sales of \$354.8 million and \$1,126.6 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$43.9 million, or 11.0%, and increased \$64.2 million, or 6.0%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 11.1% and increased 5.8% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 11.0% decrease in net sales for the three months ended September 30, 2021 was primarily due to a decrease in sales volume, as indicated by a 12.5% decrease in Volume Points, partially offset by a 1.0% favorable impact of price increases. The 6.0% increase in net sales for the nine months ended September 30, 2021 was primarily due to an increase in sales volume, as indicated by a 4.5% increase in Volume Points, and a 1.4% favorable impact of price increases.

Net sales in the U.S. were \$345.3 million and \$1,093.0 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$41.4 million, or 10.7%, and increased \$59.1 million, or 5.7%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020.

The region has generally seen growth in recent years, supported by product line expansion and deployment of enhanced technology tools to support our distributors' businesses and optimize their customers' experiences with Herbalife. The number of active Nutrition Clubs in the region has continued to grow and the Nutrition Club DMO is a focus area for training and technological support of our Members. Our communications, promotions, and other operations in the region are targeted to our distributors, or their preferred members or retail customers as appropriate. Our promotional program is designed to encourage consistency and sustainability in our Members' businesses. Additionally, we believe that pandemic conditions may have been a contributing factor in the motivation and focus of our Members, contributing to year-over-year sales volume increases during the second half of 2020 and the first half of 2021.

The third quarter of 2021 saw a sales volume decline compared to the 2020 period, due in part to comparison to a base period that saw a record level of sales. Higher sales in the Energy, Sports, and Fitness product category contributed to sales volume for the quarter.

In response to the pandemic conditions, product distribution to our Members was temporarily altered during 2020 to allow online and phone-in orders only. Currently, two of our three major U.S. distribution centers are shipping product only, with no in-person pick-ups permitted, and our sales centers are for pick-up only, with no orders taken on-site; however, our Members' ability to obtain product has not materially decreased. Our access points, including distribution centers and sales centers, generally allow in-person pick-up orders, with exceptions as local conditions warrant; however, our access points generally continue to not allow in-person orders. Members' Nutrition Clubs, which represent a major DMO for the region, are operating in some areas as pick-up points for product only, and returning to traditional on-site consumption approach as local conditions allow. Nutrition Club sales volume increased for both the quarter and the year-to-date period versus the prior-year periods, including the impact of home deliveries from Nutrition Clubs to their customers, an approach that has seen increased use as a response to the pandemic. Our Member training and promotion events, such as our Success Training Seminars and our Leadership Development Weekends, have shifted to a "virtual" online approach, with in-person events to be reinstated commencing in the fourth quarter on a case-by-case basis as conditions allow. Promotional activities aimed at our Members continue, though prizes that have involved travel to events have shifted to cash and other awards. Certain modified practices by us and our Members may prove to be lasting improvements, such as events and trainings that are offered virtually as well as in-person and expanded use of social media channels.

#### *Mexico*

The Mexico region reported net sales of \$117.5 million and \$354.5 million for the three and nine months ended September 30, 2021, respectively. Net sales increased \$7.2 million, or 6.5%, and \$32.9 million, or 10.2%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 3.5% and increased 2.5% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 6.5% increase in net sales for the three months ended September 30, 2021 was primarily due to a 10.0% favorable impact of fluctuations in foreign currency exchange rates, a 4.1% favorable impact of price increases, and a 1.2% favorable impact of timing differences between the recognition of net sales and Volume Points, partially offset by a decrease in sales volume, as indicated by a 10.3% decrease in Volume Points. The 10.2% increase in net sales for the nine months ended September 30, 2021 was primarily due to a 7.7% favorable impact of fluctuations in foreign currency exchange rates and a 4.3% favorable impact of price increases, partially offset by a decrease in sales volume, as indicated by a 2.3% decrease in Volume Points.

Mexico saw lower sales volume for the quarter and year-to-date period versus the prior-year periods. Mexico has faced ongoing difficult economic conditions, as well as the adverse impact of intermittent pandemic-related constraints, particularly on Nutrition Club operations which are important to the market. Although nearly all product access points in Mexico, both Company-operated and third party, have remained open, in some areas Nutrition Clubs are operating under restrictions such as for product pick-up only. During March 2021 we introduced Member segmentation to the market by adding a preferred customer program option for new Members; we have seen some decline in new Members since that time which we believe is due in part to Members adapting to the segmentation.

#### *South and Central America*

The South and Central America region reported net sales of \$89.2 million and \$272.0 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$13.5 million, or 13.1% (\$13.3 million, or 13.1% excluding Venezuela), and increased \$7.4 million, or 2.8% (\$7.4 million, or 2.8% excluding Venezuela), for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 4.8% and increased 15.0% (decreased 9.9% and increased 7.0% excluding Venezuela) for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 13.1% decrease in net sales for the three months ended September 30, 2021 was due to a decrease in sales volume, as indicated by a 17.5% decrease in Volume Points, and an 8.3% unfavorable impact of fluctuations in foreign currency exchange rates (3.2% unfavorable impact excluding Venezuela), partially offset by a 9.9% favorable impact of price increases (4.8% favorable impact excluding Venezuela). The 2.8% increase in net sales for the nine months ended September 30, 2021 was due to a 12.5% favorable impact of price increases (4.5% favorable impact excluding Venezuela) and a 4.0% favorable impact of sales mix, partially offset by a 12.2% unfavorable impact of fluctuations in foreign currency exchange rates (4.2% unfavorable impact excluding Venezuela) and a decrease in sales volume, as indicated by a 3.2% decrease in Volume Points.

The region saw sales volume decreases for the quarter and, to a lesser extent, the year-to-date period versus the prior-year periods. For the third quarter, the sales volume decline was seen across most markets in the region due, we believe, to continuing intermittent adverse impacts of the pandemic seen across most markets. For the year-to-date period, region results were mixed by market. Sales volume declines were greatest in Brazil, our largest market in the region; sales volume increases were led by Chile and Peru.

Pandemic impacts have varied by market across the region, but have at times included product shipping delays and suspension of product access points and Members' Nutrition Clubs, requiring reliance on shipping product to Members' and customers' homes. More broadly, markets across the region are focused on building more sustainable business for our Members through daily product consumption and retailing. We believe the region is seeing success leveraging social media, utilizing cash prize promotions, and using the weight management challenge DMO. The region is also introducing Member segmentation on a market-by-market basis by adding preferred customer program options for new Members.

Net sales in Brazil were \$15.9 million and \$49.2 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$4.9 million, or 23.6%, and \$13.2 million, or 21.1%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 25.7% and 15.3% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.4 million and an unfavorable impact of \$3.6 million on net sales for the three and nine months ended September 30, 2021, respectively. Sales volumes declined in the market for the quarter and year-to-date period versus the prior-year periods. COVID-19 pandemic conditions continue in the market and have constrained our business and that of our Members, particularly the important Nutrition Club DMO. Although Members' Nutrition Clubs are currently operating, we have seen declines in both the number of Clubs and their customer traffic. Home delivery is operating and other product access points are open for pick-up. More broadly, the market has seen some years of negative momentum, though we continue to support our Members with innovative measures, such as the Preferred Member program, and work with Member leadership to identify best practices for replication within the market.

Net sales in Peru were \$14.0 million and \$45.3 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$3.1 million, or 18.0%, and increased \$0.7 million, or 1.4%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 6.5% and increased 12.1% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had an unfavorable impact of \$2.0 million and \$4.8 million on net sales for the three and nine months ended September 30, 2021, respectively. Sales volume decreased for the quarter and increased for the year-to-date period versus the respective prior-year periods. The market continues to experience intermittent disruptions due to COVID-19 pandemic conditions, and we have adapted our business with steps including taking orders by Internet and phone and shipping product to Member homes. Members' Nutrition Clubs were also modified for home delivery only or are open for partial operation. The market has seen Members' leveraging social media and using the weight management challenge DMO.

#### *EMEA*

The EMEA region reported net sales of \$321.9 million and \$1,043.8 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$12.4 million, or 3.7%, and increased \$150.5 million, or 16.8%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 4.5% and increased 12.6% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 3.7% decrease in net sales for the three months ended September 30, 2021 was primarily due to a decrease in sales volume, as indicated by a 7.8% decrease in Volume Points, partially offset by a 2.9% favorable impact of price increases and a 0.8% favorable impact of fluctuations in foreign currency exchange rates. The 16.8% increase in net sales for the nine months ended September 30, 2021 was primarily due to an increase in sales volume, as indicated by an 8.0% increase in Volume Points, a 4.2% favorable impact of fluctuations in foreign currency exchange rates, and a 3.6% favorable impact of price increases.

Although Volume Points decreased year-over-year in the third quarter of 2021, the general, overall trend of Volume Point growth that has been seen across the EMEA region for a number of years reflects, we believe, efforts to enhance the quality and activity of sales leaders including Member training, brand awareness, and product line expansion, as well as enhanced technology tools for ordering, business performance, and customer retailing. Nearly all markets saw sales volume declines for the third quarter of 2021 versus 2020, however, and results for the first nine months of 2021 versus those of 2020 have been mixed by market. Declines include the effect of comparison to base periods that saw record levels of sales; we believe that pandemic conditions may have been a contributing factor in the motivation and focus of our Members in certain markets of the region during the second half of 2020 and first half of 2021. Volume declines for the third quarter were greatest for South Africa and the United Kingdom. Volume increases for the year-to-date period were greatest for Turkey, Italy, and Spain, and volume decline was most significant for South Africa.

Due to COVID-19 pandemic conditions, our sales centers and other product access points in certain markets within the region have at times been closed or open for limited operations only, leaving shipping for home delivery as the primary distribution channel while those conditions persist. Members are turning further to social media to carry out their sales and oversight activities. Although we and our Members are anxious to reinstitute face-to-face approaches, we believe these adaptations have been successful in limiting the adverse impact of the pandemic.

Net sales in Spain were \$44.8 million and \$148.0 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$4.0 million, or 8.1%, and increased \$23.0 million, or 18.4%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 8.9% and increased 11.0% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.4 million and \$9.3 million on net sales for the three and nine months ended September 30, 2021, respectively. In recent years, Spain has generally seen sales volume increases as it benefited from programs of promotions and sponsorships that have raised brand awareness through healthy active lifestyle and contributed to broad-based success across Member sales organizations in the market. After the first quarter of 2020 saw a small sales volume decline due to pandemic disruption, subsequent quarters saw volume increases as our Members continued to adapt to pandemic conditions, such as leveraging online tools for meetings, trainings, and selling activities. The third quarter of 2021 saw a sales volume decrease year-over-year as the 2020 base period reflected significant strength. In response to pandemic conditions, we have temporarily shifted our Member support operations to primarily online activities, as well as continuing normal home delivery.

Net sales in Italy were \$39.1 million and \$130.7 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$0.4 million, or 0.8%, and increased \$26.9 million, or 26.0%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 1.8% and increased 18.1% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.4 million and \$8.2 million on net sales for the three and nine months ended September 30, 2021, respectively. Sales volume declined slightly for the quarter and increased year-to-date versus the prior-year periods. After weakened performance in our business and pandemic conditions in the country contributed to a sales volume decline for the first quarter of 2020, we believe adaptation by Members to pandemic conditions, such as online communication with Members and home delivery, as well as heightened demand for our products and business opportunity, have been contributing factors to our sales volume increase through the second quarter of 2021 and generally strengthened performance for subsequent quarters.

Net sales in Russia were \$36.0 million and \$106.6 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$0.7 million, or 1.7%, and \$4.5 million, or 4.0%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 2.3% and increased 0.2% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.2 million and an unfavorable impact of \$4.7 million on net sales for the three and nine months ended September 30, 2021, respectively. Russia saw a sales volume decline for the quarter and year-to-date period versus the prior-year periods. Members' Nutrition Clubs, a key DMO for the market, are operating primarily online due to pandemic conditions, an approach that Members are taking time to adapt to, as supported by Herbalife with new products, training, and promotion for all levels of Membership. Our sales centers are open for product pick-up, although we continue to support home delivery for the market. Product access expansion, such as same-day express delivery in many areas has enabled growth in smaller cities. During the third quarter of 2020, we introduced Member segmentation to the market by adding a preferred customer program option for new Members. Russia had a 4% price increase in September 2021 and a 5% price increase in September 2020.

#### *Asia Pacific*

The Asia Pacific region, which excludes China, reported net sales of \$393.5 million and \$1,188.8 million for the three and nine months ended September 30, 2021, respectively. Net sales increased \$37.7 million, or 10.6%, and \$219.0 million, or 22.6%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales increased 9.5% and 19.8% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 10.6% increase in net sales for the three months ended September 30, 2021 was primarily due to an increase in sales volume, as indicated by a 9.0% increase in Volume Points, a 4.1% favorable impact of price increases, and a 1.1% favorable impact of fluctuations in foreign currency exchange rates, partially offset by a 3.6% unfavorable impact of sales mix. The 22.6% increase in net sales for the nine months ended September 30, 2021 was primarily due to an increase in sales volume, as indicated by a 21.3% increase in Volume Points, a 3.0% favorable impact of price increases, and a 2.8% favorable impact of fluctuations in foreign currency exchange rates, partially offset by a 4.1% unfavorable impact of sales mix.

Volume Point and net sales increases in recent years for most markets in the region are a result, we believe, of a customer-focused business, daily consumption DMOs including Nutrition Clubs, and ongoing product line expansion. COVID-19 pandemic conditions, such as closed sales centers and operating constraints on Members' Nutrition Clubs, have had an intermittent adverse impact on results. The volume increase for the third quarter versus the prior-year period was driven by India, as other markets across the region generally saw volume declines. The volume increase for the year-to-date period versus the prior-year period was led by India, Vietnam, and Malaysia.

Net sales in India were \$140.3 million and \$380.5 million for the three and nine months ended September 30, 2021, respectively. Net sales increased \$44.1 million, or 45.8%, and \$135.6 million, or 55.3%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales increased 45.3% and 54.0% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.5 million and \$3.3 million on net sales for the three and nine months ended September 30, 2021, respectively. Sales volumes have increased in India in recent years as we continued to expand our product line and make it easier for our Members to do business, such as by adding product access points and payment methods, and introducing a customer-direct shipping capability for our Members. Additionally, we believe adaption by our Members to pandemic-related operating constraints, such as greater use of online marketing and training tools and online Nutrition Club operation, has broadened their geographic reach enabling them to expand their businesses.

Pandemic-related operating constraints continue to be intermittent in the market, as conditions evolve by area and Indian states institute constraints as warranted. We are increasing our manufacturing capacity to continue to meet demand. We continue to take Member orders and payments online. Company locations are now open for the taking of orders and payments and pick-up of product, though home delivery volumes continue to exceed pre-pandemic levels and home delivery is becoming an important distribution channel for the market. Disruption to our collections and expenditures of cash have eased, though we continue to move transactions to electronic collection and payment for operating efficiency purposes and for Member convenience.

Regulatory restrictions on direct selling in India, including registration requirements for our distributors, have reduced the number of new distributors. However, we have seen a significant increase in new Preferred Members since these do not have similar registration requirements and as distributors encourage the Preferred Membership pathway for their customers.

Net sales in Vietnam were \$60.8 million and \$206.8 million for the three and nine months ended September 30, 2021, respectively. Net sales increased \$7.3 million, or 13.5%, and \$56.9 million, or 38.0%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales increased 12.1% and 36.4% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.8 million and \$2.4 million on net sales for the three and nine months ended September 30, 2021, respectively. Vietnam continues to see year-over-year sales volume growth as sales leadership continues to focus on sustainable, consumption-oriented business practices and the number of product access points are increased. COVID-19 pandemic-related operating constraints, such as the closure of Members' Nutrition Clubs for in-person customer servicing and some home delivery disruption, continue to be intermittent and contributed to a reduced rate of year-over-year volume growth for the third quarter of 2021. We and our Members have adapted to such constraints by moving events, trainings, and product ordering online, as well as providing home delivery. Further changes to direct-selling regulations in the market are expected to be proposed to the government for preliminary approval in late 2021. We continue to assess and monitor these preliminary draft regulations.

Net sales in Indonesia were \$38.3 million and \$121.1 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$4.3 million, or 9.9%, and \$10.2 million, or 7.7%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 11.7% and 9.4% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.8 million and \$2.2 million on net sales for the three and nine months ended September 30, 2021, respectively. The sales volume decline for the quarter and year-to-date period versus the prior-year periods are attributable in part, we believe, to ongoing pandemic conditions. These conditions include intermittent constraints on the operating hours and capacity of our product access points. Our sales centers have continued to operate via online ordering, home delivery, and pick-up, which were already established methods for the market. Many Members' Nutrition Clubs, the major DMO for the market, have experienced pandemic-related constraints on their activities, including limitations on operating hours and capacity. Additionally, we have applied to comply with new online licensing and filing requirements, subject to review by the government; we continue to monitor this review.

Net sales in South Korea were \$35.1 million and \$103.9 million for the three and nine months ended September 30, 2021, respectively. Net sales increased \$1.1 million, or 3.1%, and \$6.5 million, or 6.7%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales increased 0.6% and 0.5% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The fluctuation of foreign currency exchange rates had a favorable impact of \$0.9 million and \$6.0 million on net sales for the three and nine months ended September 30, 2021, respectively. Sales volumes increased slightly for the quarter and year-to-date period versus the prior-year periods as pandemic conditions eased somewhat and social interactions in the market such as visits to Members' Nutrition Clubs increased, and as our Members continue to adapt to virtual approaches for their businesses. Pandemic conditions continue to be intermittent with potential ongoing adverse impact on sales volumes, however, including suspension of our training facilities, constraints on Nutrition Clubs operations, and restrictions on gatherings.

## China

The China region reported net sales of \$154.0 million and \$499.1 million for the three and nine months ended September 30, 2021, respectively. Net sales decreased \$66.0 million, or 30.0%, and \$120.3 million, or 19.4%, for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. In local currency, net sales decreased 34.6% and 25.5% for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The 30.0% decrease in net sales for the three months ended September 30, 2021 was primarily due to a decrease in sales volume, as indicated by a 36.2% decrease in Volume Points, partially offset by a 4.6% favorable impact of fluctuations in foreign currency exchange rates. The 19.4% decrease in net sales for the nine months ended September 30, 2021 was primarily due to a decrease in sales volume, as indicated by a 27.6% decrease in Volume Points, partially offset by a 6.1% favorable impact of fluctuations in foreign currency exchange rates.

The volume declines for the quarter and year-to-date period versus the prior-year periods were attributable, we believe, to several factors including efforts we are making to ultimately strengthen the consistency and sustainability of our business in China. In December 2020 we increased the requirements for our sales representatives in China to be eligible to apply to become independent service providers, with further modification during the third quarter of 2021. We believe these changes will ultimately strengthen our business by improving the quality of our independent service providers, but as our Members acclimate to these new requirements we have seen declines in the number of new independent service providers and net sales. Also, the frequency and attendance of our and our Members' in-person training and sales meetings, which are important to the business as they are a central channel for attracting and retaining customers, providing personal and professional development for our Members, and promoting our products, are below the levels of prior years due to the intermittent effects of the COVID-19 pandemic and residual effects of the Chinese government's 100-day review of the health product industry, which concluded in April 2019.

Focus areas for China include enhancing our digital capabilities and offerings, such as improving the integration of our technological tools to make it easier for our Members to do business. We have expanded our product line for the China market and continue to conduct sales promotions in the region.

## Sales by Product Category

Net sales by product category were as follows:

	Three Months Ended			Nine Months Ended		
	September 30, 2021	September 30, 2020	% Change	September 30, 2021	September 30, 2020	% Change
	<i>(Dollars in millions)</i>					
Weight Management	\$ 828.7	\$ 910.4	(9.0)%	\$ 2,620.7	\$ 2,484.3	5.5%
Targeted Nutrition	400.9	415.8	(3.6)%	1,252.2	1,127.1	11.1%
Energy, Sports, and Fitness	145.5	125.2	16.2%	421.8	322.9	30.6%
Outer Nutrition	24.3	28.2	(13.8)%	82.1	80.5	2.0%
Literature, Promotional, and Other(1)	31.5	42.2	(25.4)%	108.0	116.3	(7.1)%
Total	<u>\$ 1,430.9</u>	<u>\$ 1,521.8</u>	(6.0)%	<u>\$ 4,484.8</u>	<u>\$ 4,131.1</u>	8.6%

(1) Product buybacks and returns in all product categories are included in the Literature, Promotional, and Other category.

Net sales for all major categories for the three and nine months ended September 30, 2021 as compared to the same periods in 2020 followed the trends of total net sales, as the business factors described in the above discussions of the individual geographic regions apply generally to all product categories. The exception was the Energy, Sports, and Fitness product category, which saw increased net sales for both the three and nine months ended September 30, 2021 based on strength in the North America region.

## Gross Profit

Gross profit was \$1,125.7 million and \$1,199.1 million for the three months ended September 30, 2021 and 2020, respectively, and \$3,542.1 million and \$3,289.9 million for the nine months ended September 30, 2021 and 2020, respectively. Gross profit as a percentage of net sales was 78.7% and 78.8% for the three months ended September 30, 2021 and 2020, respectively, or an unfavorable net decrease of 13 basis points, and 79.0% and 79.6% for the nine months ended September 30, 2021 and 2020, respectively, or an unfavorable net decrease of 66 basis points.

The decrease in gross profit as a percentage of net sales for the three months ended September 30, 2021 as compared to the same period in 2020 included unfavorable changes in country mix of 45 basis points, unfavorable cost changes related to self-manufacturing and sourcing of 33 basis points primarily related to increased freight costs, and the unfavorable impact of higher inventory write-downs of 10 basis points, partially offset by the favorable impact of retail price increases of 67 basis points (favorable impact of 59 basis points excluding Venezuela), and favorable other cost changes of 8 basis points.

The decrease in gross profit as a percentage of net sales for the nine months ended September 30, 2021 as compared to the same period in 2020 included unfavorable changes in country mix of 52 basis points, the unfavorable impact of foreign currency fluctuations of 43 basis points (unfavorable impact of 33 basis points excluding Venezuela), the unfavorable impact of higher inventory write-downs of 14 basis points, unfavorable cost changes related to self-manufacturing and sourcing of 10 basis points, and unfavorable cost changes of 10 basis points relating to increased freight costs due to orders shifting toward home delivery versus Member pick-up, partially offset by the favorable impact of retail price increases of 60 basis points (favorable impact of 50 basis points excluding Venezuela) and favorable other cost changes of 3 basis points.

Generally, gross profit as a percentage of net sales may vary from period to period due to the impact of foreign currency fluctuations, changes in country mix as volume changes among countries with varying margins, retail price increases, cost changes related to self-manufacturing and sourcing, and inventory write-downs.

#### **Royalty Overrides**

Royalty overrides were \$450.0 million and \$463.1 million for the three months ended September 30, 2021 and 2020, respectively, and \$1,409.8 million and \$1,251.2 million for the nine months ended September 30, 2021 and 2020, respectively. Royalty overrides as a percentage of net sales were 31.5% and 30.4% for the three months ended September 30, 2021 and 2020, respectively, and 31.4% and 30.3% for the nine months ended September 30, 2021 and 2020, respectively.

Service fees to our independent service providers in China are included in selling, general, and administrative expenses while Member compensation for all other countries is included in Royalty overrides. Generally, Royalty overrides as a percentage of net sales may vary from period to period due to changes in the mix of products and countries because full royalty overrides are not paid on certain products and in certain countries.

#### **Selling, General, and Administrative Expenses**

Selling, general, and administrative expenses were \$486.3 million and \$529.7 million for the three months ended September 30, 2021 and 2020, respectively, and \$1,498.9 million and \$1,559.5 million for the nine months ended September 30, 2021 and 2020, respectively. Selling, general, and administrative expenses as a percentage of net sales were 34.0% and 34.8% for the three months ended September 30, 2021 and 2020, respectively, and 33.4% and 37.7% for the nine months ended September 30, 2021 and 2020, respectively.

The decrease in selling, general, and administrative expenses for the three months ended September 30, 2021 as compared to the same period in 2020 was driven by \$38.2 million in lower service fees for China independent service providers due to lower sales in China, \$5.5 million in lower foreign exchange losses, and \$5.0 million in lower Member event and promotion costs, partially offset by \$6.1 million in higher professional fees.

The decrease in selling, general, and administrative expenses for the nine months ended September 30, 2021 as compared to the same period in 2020 was driven by \$83.1 million of expenses relating to the SEC and DOJ investigations relating to the FCPA matter in China in 2020 (See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q) and \$72.9 million in lower service fees for China independent service providers due to lower sales in China, partially offset by \$55.4 million in higher labor and benefits costs, \$21.9 million in higher professional fees, and \$14.7 million in higher Member event and promotion costs.

#### **Other Operating Income**

We did not recognize any other operating income for the three months ended September 30, 2021. The \$0.6 million of other operating income for the three months ended September 30, 2020 consisted of \$0.6 million of government grant income for China (See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q).

The \$16.4 million of other operating income for the nine months ended September 30, 2021 consisted of \$16.4 million of government grant income for China. The \$13.0 million of other operating income for the nine months ended September 30, 2020 consisted of \$13.0 million of government grant income for China.



## Interest Expense, Net

Interest expense, net was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	<i>(in millions)</i>			
Interest expense	\$ 38.8	\$ 37.0	\$ 115.5	\$ 96.4
Interest income	(1.1)	(1.8)	(3.5)	(7.4)
Interest expense, net	<u>\$ 37.7</u>	<u>\$ 35.2</u>	<u>\$ 112.0</u>	<u>\$ 89.0</u>

The increase in interest expense, net for the three and nine months ended September 30, 2021 as compared to the same periods in 2020 was primarily due to an increase in our overall weighted-average borrowings, partially offset by a decrease in our overall weighted-average interest rate.

## Other Expense, Net

The \$24.6 million of other expense, net for the nine months ended September 30, 2021 consisted of a loss on the extinguishment of the 2026 Notes (See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q).

## Income Taxes

Income taxes were \$34.3 million and \$33.6 million for the three months ended September 30, 2021 and 2020, respectively, and \$104.2 million and \$104.4 million for the nine months ended September 30, 2021 and 2020, respectively. The effective income tax rate was 22.6% and 19.5% for the three months ended September 30, 2021 and 2020, respectively, and 20.3% and 25.9% for the nine months ended September 30, 2021 and 2020, respectively. The increase in the effective tax rate for the three months ended September 30, 2021 as compared to the same period in 2020 was primarily due to a decrease in net benefits from discrete events, partially offset by changes in the geographic mix of our income. The decrease in the effective tax rate for the nine months ended September 30, 2021 as compared to the same period in 2020 was primarily due to changes in the geographic mix of our income and a decrease in expense from discrete events.

## Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements, including funding for expansion of operations, through net cash flows provided by operating activities. Variations in sales of our products directly affect the availability of funds. There are no material contractual restrictions on our ability to transfer and remit funds among our international affiliated companies. However, there are foreign currency restrictions in certain countries which could reduce our ability to timely obtain U.S. dollars. Even with these restrictions and the impacts of the COVID-19 pandemic, we believe we will have sufficient resources, including cash flow from operating activities and access to capital markets, to meet debt service obligations in a timely manner and be able to continue to meet our objectives.

Historically, our debt has not resulted from the need to fund our normal operations, but instead has resulted primarily from our share repurchase programs. Since inception in 2007, total share repurchases amounted to approximately \$6.3 billion. While a significant net sales decline could potentially affect the availability of funds, many of our largest expenses are variable in nature, which we believe protects our funding in all but a dramatic net sales downturn. Our \$678.2 million cash and cash equivalents as of September 30, 2021 and our senior secured credit facility, in addition to cash flow from operations, can be used to support general corporate purposes, including any future share repurchases, dividends, and strategic investment opportunities.

We have a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows certain of our participating subsidiaries to withdraw cash from this financial institution based upon our aggregate cash deposits held by subsidiaries who participate in the cash pooling arrangement. We did not owe any amounts to this financial institution under the pooling arrangement as of September 30, 2021 and December 31, 2020.

For the nine months ended September 30, 2021, we generated \$374.9 million of operating cash flow as compared to \$516.1 million for the same period in 2020. The decrease in our operating cash flow was the result of \$282.7 million of unfavorable changes in operating assets and liabilities, partially offset by \$141.5 million of higher net income excluding non-cash and reconciling items disclosed within our condensed consolidated statement of cash flows. The \$282.7 million change in operating assets and liabilities was primarily the result of unfavorable changes in inventories, prepaid expenses and other current assets, royalty overrides, and other current liabilities, partially offset by a favorable change in receivables. The unfavorable change in other current liabilities included unfavorable changes in accrued compensation, accrued interest, and settlement of Mexico VAT assessments, partially offset by a favorable impact in 2021 due to the prior-year settlement of the SEC and DOJ investigations relating to the FCPA matter in China. The \$141.5 million of higher net income excluding non-cash and reconciling items was primarily driven by higher contribution margin driven by higher net sales (*See Summary Financial Results* above for further discussion) and lower selling, general, and administrative expenses primarily as a result of the \$83.1 million in higher expenses recognized in 2020 related to the SEC and DOJ investigations relating to the FCPA matter in China.

Capital expenditures, including accrued capital expenditures, were \$102.1 million and \$74.8 million for the nine months ended September 30, 2021 and 2020, respectively. The majority of these expenditures represented investments in management information systems, including initiatives to develop web-based Member tools, as well as expansion of our manufacturing and distribution facilities. We expect to incur total capital expenditures of approximately \$145 million to \$175 million for the full year of 2021.

In March 2021, we hosted our annual global Herbalife Honors event virtually where sales leaders from around the world met, shared best practices, and conducted leadership training, and our management awarded Members \$81.1 million of Mark Hughes bonus payments related to their 2020 performance. In March 2020, our management awarded Members \$71.3 million of Mark Hughes bonus payments related to their 2019 performance.

Management has begun efforts to design and build a transformation program to optimize global processes through investment in and realignment of the infrastructure and locations of certain supporting functions and is also separately assessing the realignment of certain front office functions and exploring new technology to ensure the Company is optimally structured to better support distributors and customers. In connection with the aforementioned initiatives, for the three and nine months ended September 30, 2021, we incurred \$3.9 million and \$7.6 million of expenses, respectively, primarily relating to professional fees. We continue to assess the scope of these initiatives and accordingly cannot estimate the total amounts to be incurred.

#### *Senior Secured Credit Facility*

On August 16, 2018, we entered into a \$1.25 billion senior secured credit facility, or the 2018 Credit Facility, consisting of a \$250.0 million term loan A, or the 2018 Term Loan A, a \$750.0 million term loan B, or the 2018 Term Loan B, and a \$250.0 million revolving credit facility, or the 2018 Revolving Credit Facility, with a syndicate of financial institutions as lenders. The 2018 Term Loan B matures upon the earlier of: (i) August 18, 2025, or (ii) December 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds \$350.0 million and we exceed certain leverage ratios as of that date. All obligations under the 2018 Credit Facility are unconditionally guaranteed by certain direct and indirect wholly-owned subsidiaries of Herbalife Nutrition Ltd. and secured by the equity interests of certain of Herbalife Nutrition Ltd.'s subsidiaries and substantially all of the assets of the domestic loan parties. Also on August 16, 2018, we issued \$400.0 million aggregate principal amount of senior unsecured notes, or the 2026 Notes as described below, and used the proceeds from the 2018 Credit Facility and the 2026 Notes to repay in full the \$1,178.1 million outstanding under our prior senior secured credit facility.

On December 12, 2019, we amended the 2018 Credit Facility which, among other things, reduced the interest rate for borrowings under the 2018 Term Loan B. We incurred approximately \$1.2 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 470, *Debt*, or ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. The debt issuance costs were recognized in interest expense, net within our condensed consolidated statement of income during the three months ended December 31, 2019.

On March 19, 2020, we amended the 2018 Credit Facility which, among other things, extended the maturity of both the 2018 Term Loan A and 2018 Revolving Credit Facility to the earlier of: (i) March 19, 2025 or (ii) September 15, 2023 if the outstanding principal on the 2024 Convertible Notes, as defined below, exceeds \$350.0 million and we exceed certain leverage ratios as of that date; increased borrowings under the 2018 Term Loan A from \$234.4 million to a total of \$264.8 million; increased the total available borrowing capacity under 2018 Revolving Credit Facility from \$250.0 million to \$282.5 million; and reduced the interest rate for borrowings under both the 2018 Term Loan A and 2018 Revolving Credit Facility. We incurred approximately \$1.6 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. Of the \$1.6 million of debt issuance costs, approximately \$1.1 million was recorded on our condensed consolidated balance sheet and is being amortized over the life of the 2018 Credit Facility using the effective-interest method, and approximately \$0.5 million was recognized in interest expense, net within our condensed consolidated statement of income during the three months ended March 31, 2020.

On February 10, 2021, we amended the 2018 Credit Facility which, among other things, reduced the interest rate for borrowings under the 2018 Term Loan B. We incurred approximately \$1.1 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. The debt issuance costs were recognized in interest expense, net within our condensed consolidated statement of income during the three months ended March 31, 2021.

On July 30, 2021, we amended the 2018 Credit Facility which, among other things, increased borrowings under the 2018 Term Loan A from \$245.0 million to a total of \$286.2 million; increased the total available borrowing capacity under the 2018 Revolving Credit Facility from \$282.5 million to \$330.0 million; reduced the interest rate for borrowings under the 2018 Term Loan A and 2018 Revolving Credit Facility; and amended the commitment fee on the undrawn portion of the 2018 Revolving Credit Facility. As a result of the amendment, the applicable margin for the 2018 Term Loan A and 2018 Revolving Credit Facility may also be subject to certain premiums or discounts tied to criteria determined by certain sustainability targets. We incurred approximately \$1.4 million of debt issuance costs in connection with the amendment. For accounting purposes, pursuant to ASC 470, this transaction was accounted for as a modification of the 2018 Credit Facility. Of the \$1.4 million of debt issuance costs, approximately \$0.8 million was recorded on our condensed consolidated balance sheet and is being amortized over the life of the 2018 Credit Facility using the effective-interest method, and approximately \$0.6 million was recognized in interest expense, net within our condensed consolidated statement of income during the three months ended September 30, 2021.

The 2018 Credit Facility requires us to comply with a leverage ratio. The 2018 Credit Facility also contains affirmative and negative covenants customary for financings of this type, including, among other things, limitations or prohibitions on repurchasing common shares, declaring and paying dividends and other distributions, redeeming and repurchasing certain other indebtedness, loans and investments, additional indebtedness, liens, mergers, asset sales and transactions with affiliates. In addition, the 2018 Credit Facility contains customary events of default. As of September 30, 2021 and December 31, 2020, we were in compliance with our debt covenants under the 2018 Credit Facility.

The 2018 Term Loan A and 2018 Term Loan B are payable in consecutive quarterly installments which began on December 31, 2018. Interest is due at least quarterly on amounts outstanding under the 2018 Credit Facility. In addition, beginning in 2020, we may be required to make mandatory prepayments towards the 2018 Term Loan B based on our consolidated leverage ratio and annual excess cash flows as defined under the terms of the 2018 Credit Facility. We are also permitted to make voluntary prepayments. Amounts outstanding under the 2018 Term Loan A and 2018 Term Loan B may be voluntarily prepaid without premium or penalty, subject to customary breakage fees in connection with the prepayment of a eurocurrency loan. These prepayments, if any, will be applied against remaining quarterly installments owed under the 2018 Term Loan A and 2018 Term Loan B in order of maturity with the remaining principal due upon maturity, unless directed otherwise by us. Based on the 2020 consolidated leverage ratio and excess cash flow calculation, both as defined under the terms of the 2018 Credit Facility, we will not be required to make a mandatory prepayment in 2021 toward the 2018 Term Loan B.

During the nine months ended September 30, 2021, we borrowed an aggregate amount of \$531.2 million under the 2018 Credit Facility and repaid a total amount of \$415.8 million on amounts outstanding under the 2018 Credit Facility, including a \$60.0 million prepayment on amounts outstanding under the 2018 Term Loan B. During the nine months ended September 30, 2020, we borrowed an aggregate amount of \$30.4 million under the 2018 Credit Facility and repaid a total amount of \$15.6 million on amounts outstanding under the 2018 Credit Facility. As of September 30, 2021 and December 31, 2020, the U.S. dollar amount outstanding under the 2018 Credit Facility was \$1,100.1 million and \$984.7 million, respectively. Of the \$1,100.1 million outstanding under the 2018 Credit Facility as of September 30, 2021, \$282.6 million was outstanding under the 2018 Term Loan A, \$667.5 million was outstanding under the 2018 Term Loan B, and \$150.0 million was outstanding under the 2018 Revolving Credit Facility. Of the \$984.7 million outstanding under the 2018 Credit Facility as of December 31, 2020, \$251.6 million was outstanding under the 2018 Term Loan A and \$733.1 million was outstanding under the 2018 Term Loan B. There were no borrowings outstanding under the 2018 Revolving Credit Facility as of December 31, 2020. There were no outstanding foreign currency borrowings under the 2018 Credit Facility as of September 30, 2021 and December 31, 2020. As of September 30, 2021 and December 31, 2020, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 2.65% and 3.39%, respectively.

See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a further discussion on the 2018 Credit Facility.

#### *Convertible Senior Notes due 2024*

In March 2018, we issued \$550.0 million aggregate principal amount of convertible senior notes due 2024, or the 2024 Convertible Notes. The 2024 Convertible Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2024 Convertible Notes pay interest at a rate of 2.625% per annum payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. Unless redeemed, repurchased or converted in accordance with their terms prior to such date, the 2024 Convertible Notes mature on March 15, 2024. The primary purpose of the issuance of the 2024 Convertible Notes was to repurchase a portion of the 2019 Convertible Notes. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a further discussion on our 2024 Convertible Notes.

#### *Senior Notes due 2025*

In May 2020, we issued \$600.0 million aggregate principal amount of senior notes due 2025, or the 2025 Notes. The 2025 Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2025 Notes pay interest at a rate of 7.875% per annum payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021. The 2025 Notes mature on September 1, 2025, unless redeemed or repurchased in accordance with their terms prior to such date. The primary purpose of the issuance of the 2025 Notes was for general corporate purposes, including share repurchases and other capital investment projects. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a further discussion on our 2025 Notes.

#### *Senior Notes due 2026*

In August 2018, we issued \$400.0 million aggregate principal amount of senior notes due 2026, or the 2026 Notes. The 2026 Notes were senior unsecured obligations which ranked effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2026 Notes paid interest at a rate of 7.250% per annum payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2019. The 2026 Notes were to mature on August 15, 2026, unless redeemed or repurchased in accordance with their terms prior to such date. The primary purpose of the issuance of the 2026 Notes was to refinance a portion of our 2017 Credit Facility.

In May 2021, we issued \$600.0 million aggregate principal of new senior notes due 2029 as described below, and subsequently used a portion of the proceeds to redeem all \$400.0 million of our existing 2026 Notes for an aggregate purchase price of \$428.5 million, which included \$7.7 million of accrued interest. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a further discussion on our 2026 Notes.

### *Senior Notes due 2029*

In May 2021, we issued \$600.0 million aggregate principal amount of senior notes due 2029, or the 2029 Notes. The 2029 Notes are senior unsecured obligations which rank effectively subordinate to any of our existing and future secured indebtedness, including amounts outstanding under the 2018 Credit Facility, to the extent of the value of the assets securing such indebtedness. The 2029 Notes pay interest at a rate of 4.875% per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The 2029 Notes mature on June 1, 2029, unless redeemed or repurchased in accordance with their terms prior to such date. The primary purpose of the issuance of the 2029 Notes was to repurchase the 2026 Notes as well as for general corporate purposes, which may include shares repurchases and other capital investment projects. See Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a further discussion on our 2029 Notes.

### *Cash and Cash Equivalents*

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. As of September 30, 2021, the total amount of our foreign subsidiary cash and cash equivalents was \$485.9 million, of which \$19.4 million was invested in U.S. dollars. As of September 30, 2021, the total amount of cash and cash equivalents held by Herbalife Nutrition Ltd. and its U.S. entities, inclusive of U.S. territories, was \$192.3 million.

For earnings not considered to be indefinitely reinvested deferred taxes have been provided. For earnings considered to be indefinitely reinvested, deferred taxes have not been provided. Should we make a determination to remit the cash and cash equivalents from our foreign subsidiaries that are considered indefinitely reinvested to Herbalife Nutrition Ltd. for the purpose of repatriation of undistributed earnings, we would need to accrue and pay taxes. As of December 31, 2020, Herbalife Nutrition Ltd. had approximately \$2.6 billion of permanently reinvested unremitted earnings relating to its operating subsidiaries. As of December 31, 2020, we do not have any plans to repatriate these unremitted earnings to Herbalife Nutrition Ltd.; therefore, we do not have any liquidity concerns relating to these unremitted earnings and related cash and cash equivalents. See Note 12, *Income Taxes*, to the Consolidated Financial Statements included in our 2020 10-K for additional discussion on our unremitted earnings.

### *Off-Balance Sheet Arrangements*

As of September 30, 2021 and December 31, 2020, we had no material off-balance sheet arrangements.

### *Dividends*

We have not declared or paid cash dividends since 2014. The declaration of future dividends is subject to the discretion of our board of directors and will depend upon various factors, including our earnings, financial condition, Herbalife Nutrition Ltd.'s available distributable reserves under Cayman Islands law, restrictions imposed by the 2018 Credit Facility and the terms of any other indebtedness that may be outstanding, cash requirements, future prospects, and other factors deemed relevant by our board of directors.

### *Share Repurchases*

On February 9, 2021, our board of directors authorized a new three-year \$1.5 billion share repurchase program that will expire on February 9, 2024, which replaced our prior share repurchase authorization that was set to expire on October 30, 2023 and had approximately \$7.9 million of remaining authorized capacity when it was replaced. This share repurchase program allows us, which includes an indirect wholly-owned subsidiary of Herbalife Nutrition Ltd., to repurchase our common shares at such times and prices as determined by management, as market conditions warrant, and to the extent Herbalife Nutrition Ltd.'s distributable reserves are available under Cayman Islands law. The 2018 Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and other conditions, such as specified consolidated leverage ratios, are met. As of September 30, 2021, the remaining authorized capacity under our \$1.5 billion share repurchase program was approximately \$1.2 billion.

During January 2021, we repurchased from Mr. Carl C. Icahn and certain of his affiliates an aggregate of approximately 12.5 million common shares of ours at an aggregate cost of approximately \$600.0 million, or \$48.05 per share, and subsequently retired these shares. In addition, during the nine months ended September 30, 2021, we repurchased approximately 5.7 million of our common shares through open-market purchases at an aggregate cost of approximately \$281.1 million, or an average cost of \$49.27 per share, and subsequently retired these shares. In total, during the nine months ended September 30, 2021, we repurchased approximately 18.2 million of our common shares at an aggregate cost of approximately \$881.1 million, or an average cost of \$48.43 per share. In August 2020, we completed our modified Dutch auction tender offer and then subsequently paid cash to repurchase and retire a total of approximately 15.4 million of our common shares at an aggregate cost of approximately \$750.0 million, or \$48.75 per share. In addition, during the nine months ended September 30, 2020, we repurchased approximately 1.4 million of our common shares through open-market purchases at an aggregate cost of approximately \$67.1 million, or an average cost of \$46.44 per share, and subsequently retired these shares. In total, during the nine months ended September 30, 2020, we repurchased approximately 16.8 million of our common shares at an aggregate cost of approximately \$817.1 million, or an average cost of \$48.55 per share.

As of both September 30, 2021 and December 31, 2020, we held approximately 10.0 million of treasury shares for U.S. GAAP purposes. These treasury shares increased our shareholders' deficit and are reflected at cost within our accompanying condensed consolidated balance sheets. Although these shares are owned by an indirect wholly-owned subsidiary of ours and remain legally outstanding, they are reflected as treasury shares under U.S. GAAP and therefore reduce the number of common shares outstanding within our condensed consolidated financial statements and the weighted-average number of common shares outstanding used in calculating earnings per share. The common shares of Herbalife Nutrition Ltd. held by the indirect wholly-owned subsidiary, however, remain outstanding on the books and records of our transfer agent and therefore still carry voting and other share rights related to ownership of our common shares, which may be exercised. So long as it is consistent with applicable laws, such shares will be voted by such subsidiary in the same manner, and to the maximum extent possible in the same proportion, as all other votes cast with respect to any matter properly submitted to a vote of Herbalife Nutrition Ltd.'s shareholders.

See Note 10, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, for a further discussion on our share repurchases.

#### *Working Capital and Operating Activities*

As of September 30, 2021 and December 31, 2020, we had working capital of \$488.4 million and \$648.5 million, respectively, or a decrease of \$160.1 million. The decrease was primarily due to a decrease in cash and cash equivalents and an increase in accounts payable, partially offset by increases in inventories and prepaid expenses and other current assets and decreases in royalty overrides and other current liabilities.

We expect that cash and funds provided from operations, available borrowings under the 2018 Credit Facility, and access to capital markets will provide sufficient working capital to operate our business, to make expected capital expenditures, and to meet foreseeable liquidity requirements for the next twelve months and thereafter.

The majority of our purchases from suppliers are generally made in U.S. dollars, while sales to our Members generally are made in local currencies. Consequently, strengthening of the U.S. dollar versus a foreign currency can have a negative impact on net sales and contribution margins and can generate transaction gains or losses on intercompany transactions. For discussion of our foreign exchange contracts and other hedging arrangements, see Part I, Item 3, *Quantitative and Qualitative Disclosures about Market Risk*, of this Quarterly Report on Form 10-Q.

#### **Contingencies**

See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, for a further discussion of our contingencies as of September 30, 2021.

#### **Critical Accounting Policies**

U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. We regularly evaluate our estimates and assumptions related to revenue recognition, allowance for product returns, inventory, goodwill and purchased intangible asset valuations, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing the financial statements and the uncertainties that could impact our operating results, financial condition and cash flows.

We are a nutrition company that sells a wide range of weight management; targeted nutrition; energy, sports, and fitness; and outer nutrition products. Our products are manufactured by us in our Changsha, Hunan, China extraction facility; Suzhou, China facility; Nanjing, China facility; Lake Forest, California facility; and Winston-Salem, North Carolina facility; and by third-party providers, and then are sold to Members who consume and sell Herbalife products to retail consumers or other Members. As of September 30, 2021, we sold products in 95 markets throughout the world and we are organized and managed by geographic region. We aggregate our operating segments into one reporting segment, except China, as management believes that our operating segments have similar operating characteristics and similar long term operating performance. In making this determination, management believes that the operating segments are similar in the nature of the products sold, the product acquisition process, the types of customers to whom products are sold, the methods used to distribute the products, the nature of the regulatory environment, and their economic characteristics.

We generally recognize revenue upon delivery when control passes to the Member. Product sales are recognized net of product returns, and discounts referred to as “distributor allowances.” We generally receive the net sales price in cash or through credit card payments at the point of sale. Royalty overrides are generally recorded when revenue is recognized. See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, for a further discussion of distributor compensation in the U.S.

Allowances for product returns, primarily in connection with our buyback program, are provided at the time the sale is recorded. This accrual is based upon historical return rates for each country and the relevant return pattern, which reflects anticipated returns to be received over a period of up to 12 months following the original sale. Historically, product returns and buybacks have not been significant. Product returns and buybacks were approximately 0.1% of net sales for each of the three and nine months ended September 30, 2021 and 2020.

We adjust our inventories to lower of cost and net realizable value. Additionally we adjust the carrying value of our inventory based on assumptions regarding future demand for our products and market conditions. If future demand and market conditions are less favorable than management’s assumptions, additional inventory write-downs could be required. Likewise, favorable future demand and market conditions could positively impact future operating results if previously written down inventories are sold. We have obsolete and slow moving inventories which have been adjusted downward \$28.1 million and \$23.0 million to present them at their lower of cost and net realizable value in our condensed consolidated balance sheets as of September 30, 2021 and December 31, 2020, respectively.

Goodwill and marketing-related intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired.

As part of the annual goodwill impairment test, which is performed at the reporting unit level, we may conduct an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In a qualitative assessment, we would consider the macroeconomic conditions, including any deterioration of general conditions and industry and market conditions, including any deterioration in the environment where the reporting unit operates, increased competition, changes in the products/services and regulatory and political developments, cost of doing business, overall financial performance, including any declining cash flows and performance in relation to planned revenues and earnings in past periods, other relevant reporting unit specific facts, such as changes in management or key personnel or pending litigation, and events affecting the reporting unit, including changes in the carrying value of net assets. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then we would perform the quantitative goodwill impairment test as required. If we determine that it is not more likely than not that the fair value of the reporting unit is less than the carrying value, then no further testing is required. During fiscal year 2020, we performed a qualitative assessment and determined that it is not more likely than not that the fair value of each reporting unit is less than its respective carrying value.

For our marketing-related intangible assets, we may also utilize a qualitative assessment similar to the one described above, with the exception that the test is performed at the consolidated level rather than at the reporting unit level. During fiscal year 2020, we performed a qualitative assessment of our marketing-related intangible assets and determined that it is not more likely than not that the fair value of the assets is less than their carrying value.

If we are required to determine the fair value of each reporting unit using the quantitative method, we primarily use an income approach in order to determine the fair value of a reporting unit and compare it to its carrying amount. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include estimates of future revenues and expense growth rates, capital expenditures and the depreciation and amortization related to these capital expenditures, discount rates, and other inputs. Due to the inherent uncertainty involved in making these estimates, actual future results could differ. Changes in assumptions regarding future results or other underlying assumptions could have a significant impact on the fair value of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit over its fair value.

If we are required to determine the fair value of our marketing-related intangible assets using the quantitative method, we use a discounted cash flow model, or the income approach, under the relief-from-royalty method to determine the fair value of our marketing related intangible assets in order to confirm there is no impairment required. An impairment loss is recognized to the extent that the carrying amount of the assets exceeds their fair value.

As of September 30, 2021 and December 31, 2020, we had goodwill of approximately \$96.4 million and \$100.5 million, respectively. The decrease in goodwill during the nine months ended September 30, 2021 was due to foreign currency translation adjustments. As of both September 30, 2021 and December 31, 2020, we had marketing-related intangible assets of approximately \$310.0 million. No marketing-related intangibles or goodwill impairment was recorded during the three and nine months ended September 30, 2021 and 2020. See Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a further discussion.

Contingencies are accounted for in accordance with FASB ASC Topic 450, *Contingencies*, or ASC 450. ASC 450 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. We also disclose material contingencies when we believe a loss is not probable but reasonably possible as required by ASC 450. Accounting for contingencies such as legal and non-income tax matters requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases.

We evaluate the realizability of our deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. Although realization is not assured, we believe it is more likely than not that the net carrying value will be realized. The amount of the carryforwards that is considered realizable, however, could change if estimates of future taxable income are adjusted. In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our condensed consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. These estimates involve complex issues and require us to make judgments about the likely application of the tax law to our situation, as well as with respect to other matters, such as anticipating the positions that we will take on tax returns prior to us actually preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities and statutes of limitations. In addition, changes in our business, including acquisitions, changes in our international corporate structure, changes in the geographic location of business functions or assets, changes in the geographic mix and amount of income, as well as changes in our agreements with tax authorities, valuation allowances, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audit and other matters, and variations in the estimated and actual level of annual pre-tax income can affect the overall effective income tax rate.

We account for uncertain tax positions in accordance with FASB ASC Topic 740, *Income Taxes*, or ASC 740, which provides guidance on the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

We account for foreign currency transactions in accordance with FASB ASC Topic 830, *Foreign Currency Matters*. In a majority of the countries where we operate, the functional currency is the local currency. Our foreign subsidiaries' asset and liability accounts are translated for condensed consolidated financial reporting purposes into U.S. dollar amounts at period-end exchange rates. Revenue and expense accounts are translated at the average rates during the year. Our foreign currency translation adjustments are included in accumulated other comprehensive loss on our accompanying condensed consolidated balance sheets. Foreign currency transaction gains and losses and foreign currency remeasurements are generally included in selling, general, and administrative expenses in the accompanying condensed consolidated statements of income.

#### *New Accounting Pronouncements*

See discussion under Note 2, *Significant Accounting Policies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, for information on new accounting pronouncements.



### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risks, which arise during the normal course of business from changes in interest rates and foreign currency exchange rates. On a selected basis, we use derivative financial instruments to manage or hedge certain of these risks. All hedging transactions are authorized and executed pursuant to written guidelines and procedures.

We apply FASB ASC Topic 815, *Derivatives and Hedging*, or ASC 815, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the underlying hedged item are recognized concurrently in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative are recorded in other comprehensive loss and are recognized in the condensed consolidated statements of income when the hedged item affects earnings. ASC 815 defines the requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized concurrently in earnings.

A discussion of our primary market risk exposures and derivatives is presented below.

#### **Foreign Exchange Risk**

We transact business globally and are subject to risks associated with changes in foreign exchange rates. Our objective is to minimize the impact to earnings and cash flow associated with foreign exchange rate fluctuations. We enter into foreign exchange derivatives in the ordinary course of business primarily to reduce exposure to currency fluctuations attributable to intercompany transactions, translation of local currency earnings, inventory purchases subject to foreign currency exposure, and to partially mitigate the impact of foreign currency rate fluctuations. Due to volatility in foreign exchange markets, our current strategy, in general, is to hedge some of the significant exposures on a short-term basis. We will continue to monitor the foreign exchange markets and evaluate our hedging strategy accordingly. With the exception of our foreign currency forward contracts relating to forecasted inventory purchases and intercompany management fees discussed below, all of our foreign exchange contracts are designated as freestanding derivatives for which hedge accounting does not apply. The changes in the fair value of the derivatives not qualifying as cash flow hedges are included in selling, general, and administrative expenses within our condensed consolidated statements of income.

The foreign currency forward contracts and option contracts designated as freestanding derivatives are primarily used to hedge foreign currency-denominated intercompany transactions and to partially mitigate the impact of foreign currency fluctuations. The fair value of foreign exchange derivative contracts is based on third-party quotes. Our foreign currency derivative contracts are generally executed on a monthly basis.

We also purchase foreign currency forward contracts in order to hedge forecasted inventory transactions and intercompany management fees that are designated as cash flow hedges and are subject to foreign currency exposures. We applied the hedge accounting rules as required by ASC 815 for these hedges. These contracts allow us to buy and sell certain currencies at specified contract rates. As of September 30, 2021 and December 31, 2020, the aggregate notional amounts of these contracts outstanding were approximately \$56.2 million and \$56.4 million, respectively. As of September 30, 2021, the outstanding contracts were expected to mature over the next fifteen months. Our derivative financial instruments are recorded on the condensed consolidated balance sheets at fair value based on quoted market rates. For the forecasted inventory transactions, the forward contracts are used to hedge forecasted inventory transactions over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in cost of sales in the condensed consolidated statements of income during the period which approximates the time the hedged inventory is sold. We also hedge forecasted intercompany management fees over specific months. Changes in the fair value of these forward contracts designated as cash flow hedges, excluding forward points, are recorded as a component of accumulated other comprehensive loss within shareholders' deficit, and are recognized in selling, general, and administrative expenses within the condensed consolidated statements of income during the period when the hedged item and underlying transaction affect earnings. As of September 30, 2021, we recorded assets at fair value of \$0.3 million and liabilities at fair value of \$0.9 million relating to all outstanding foreign currency contracts designated as cash flow hedges. As of December 31, 2020, we recorded liabilities at fair value of \$3.9 million relating to all outstanding foreign currency contracts designated as cash flow hedges. These hedges remained effective as of September 30, 2021 and December 31, 2020.

As of both September 30, 2021 and December 31, 2020, the majority of our outstanding foreign currency forward contracts had maturity dates of less than twelve months with the majority of freestanding derivatives expiring within one month.

The following table provides information about the details of all foreign currency forward contracts that were outstanding as of September 30, 2021:

	Weighted-Average Contract Rate	Notional Amount	Fair Value Gain (Loss)
	<i>(in millions, except weighted-average contract rate)</i>		
<b>As of September 30, 2021</b>			
Buy British pound sell Euro	0.86	\$ 33.7	\$ —
Buy Chinese yuan sell Euro	8.14	49.2	4.3
Buy Chinese yuan sell U.S. dollar	6.63	103.2	1.3
Buy Danish krone sell U.S. dollar	6.32	0.8	—
Buy Euro sell Australian dollar	1.62	1.4	—
Buy Euro sell Chilean peso	929.40	0.4	—
Buy Euro sell Hong Kong dollar	9.16	5.2	(0.1)
Buy Euro sell Indian rupee	86.85	2.3	—
Buy Euro sell Indonesia rupiah	16,701.42	12.5	(0.1)
Buy Euro sell Kazakhstan tenge	504.40	1.0	—
Buy Euro sell Malaysian ringgit	4.93	22.9	(0.4)
Buy Euro sell Mexican peso	24.74	53.4	(0.8)
Buy Euro sell Peruvian nuevo sol	4.83	1.7	—
Buy Euro sell Philippine peso	59.15	0.9	—
Buy Euro sell Russian ruble	86.53	8.0	(0.1)
Buy Euro sell South African rand	17.99	15.1	(0.4)
Buy Euro sell Thai baht	38.73	1.3	—
Buy Euro sell Turkish lira	10.48	3.7	—
Buy Euro sell Vietnamese dong	26,780.79	28.2	(0.4)
Buy Hong Kong dollar sell Euro	9.19	1.3	—
Buy Indonesia rupiah sell U.S. dollar	14,372.20	6.9	—
Buy Mexican peso sell U.S. dollar	20.52	1.9	—
Buy Norwegian krone sell U.S. dollar	8.62	2.2	—
Buy Polish zloty sell U.S. dollar	3.94	1.0	—
Buy Swedish krona sell U.S. dollar	8.65	2.1	—
Buy Taiwan dollar sell U.S. dollar	27.60	15.3	(0.1)
Buy U.S. dollar sell Brazilian real	5.41	8.7	0.2
Buy U.S. dollar sell Chinese yuan	6.51	45.2	—
Buy U.S. dollar sell Colombian peso	3,837.56	1.2	—
Buy U.S. dollar sell Euro	1.17	83.3	0.6
Buy U.S. dollar sell Indian rupee	75.65	2.0	—
Buy U.S. dollar sell Mexican peso	21.93	10.7	(0.5)
Buy U.S. dollar sell Philippine peso	50.67	5.9	0.1
Buy U.S. dollar sell Thai baht	33.27	6.0	0.1
Buy Ukrainian hryvnia sell Euro	31.70	1.2	—
<b>Total forward contracts</b>		<b>\$ 539.8</b>	<b>\$ 3.7</b>

The majority of our foreign subsidiaries designate their local currencies as their functional currencies. See *Liquidity and Capital Resources — Cash and Cash Equivalents* in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q for further discussion of our foreign subsidiary cash and cash equivalents.

#### Interest Rate Risk

As of September 30, 2021, the aggregate annual maturities of the 2018 Credit Facility were expected to be \$5.5 million for the remainder of 2021, \$29.0 million for 2022, \$29.0 million for 2023, \$36.1 million for 2024, and \$1,000.5 million for 2025. As of September 30, 2021, the fair values of the 2018 Term Loan A, 2018 Term Loan B, and 2018 Revolving Credit Facility were approximately \$281.9 million, \$665.8 million, and \$150.0 million, respectively, and the carrying values were \$281.6 million, \$662.0 million, and \$150.0 million, respectively. As of December 31, 2020, the fair values of the 2018 Term Loan A and 2018 Term Loan B were approximately \$251.9 million and \$734.0 million, respectively, and the carrying values were \$250.5 million and \$726.0 million, respectively. There were no outstanding borrowings on the 2018 Revolving Credit Facility as of December 31, 2020. The 2018 Credit Facility bears variable interest rates, and as of September 30, 2021 and December 31, 2020, the weighted-average interest rate for borrowings under the 2018 Credit Facility was 2.65% and 3.39%, respectively.

During the first quarter of 2020, we entered into various interest rate swap agreements with effective dates ranging between February 2020 and March 2020. These agreements collectively provide for us to pay interest at a weighted-average fixed rate of 0.98% on aggregate notional amounts of \$100.0 million under the 2018 Credit Facility until their respective expiration dates ranging between February 2022 and March 2023, while receiving interest based on LIBOR on the same notional amounts for the same periods. At inception, these swap agreements were designated as cash flow hedges against the variability in certain LIBOR-based borrowings under the 2018 Credit Facility, effectively fixing the interest rate on such notional amounts at a weighted-average effective rate of, depending on our total leverage ratio, between 2.73% and 3.23%. The fair values of the interest rate swap agreements are based on third-party bank quotes, and as of September 30, 2021 and December 31, 2020, we recorded liabilities at fair value of \$0.4 million and \$1.0 million, respectively, relating to these interest rate swap agreements.

Our exposure to interest rate volatility risk related to our 2018 Credit Facility is partially mitigated by our interest rate swaps. If interest rates were to increase or decrease by 1% for the year and our borrowing amounts on our 2018 Credit Facility and related interest rate swaps remained constant, our annual interest expense could increase by approximately \$10.0 million or decrease by approximately \$0.8 million, respectively. The variable interest rates payable under our 2018 Credit Facility are linked to LIBOR as the benchmark for establishing such rates. Recent national, international and other regulatory guidance and reform proposals regarding LIBOR are requiring certain LIBOR tenors to be discontinued or become unavailable by the end of 2021 and LIBOR to be fully discontinued or become unavailable as a benchmark rate by June 2023. Our 2018 Credit Facility includes mechanics to facilitate the adoption by us and our lenders of an alternative benchmark rate for use in place of LIBOR which may result in interest rates that are higher or lower than those that would have resulted had LIBOR remained in effect.

As of September 30, 2021, the fair value of the liability component of the 2024 Convertible Notes was approximately \$548.6 million and the carrying value was \$479.4 million. As of December 31, 2020, the fair value of the liability component of the 2024 Convertible Notes was approximately \$541.8 million and the carrying value was \$460.6 million. The 2024 Convertible Notes pay interest at a fixed rate of 2.625% per annum payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. Unless redeemed, repurchased or converted in accordance with their terms prior to such date, the 2024 Convertible Notes mature on March 15, 2024.

As of September 30, 2021, the fair value of the 2025 Notes was approximately \$647.7 million and the carrying value was \$593.8 million. As of December 31, 2020, the fair value of the 2025 Notes was approximately \$656.3 million and the carrying value was \$592.9 million. The 2025 Notes pay interest at a fixed rate of 7.875% per annum payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021. The 2025 Notes mature on September 1, 2025, unless redeemed or repurchased in accordance with their terms prior to such date. The 2025 Notes are recorded at their carrying value and their fair value is used only for disclosure purposes, so an increase or decrease in interest rates would not have any impact to our condensed consolidated financial statements; however, if interest rates were to increase or decrease by 1%, their fair value could decrease or increase by approximately \$5.8 million, respectively.

As of September 30, 2021, the fair value of the 2029 Notes was approximately \$600.1 million and the carrying value was \$592.6 million. The 2029 Notes pay interest at a fixed rate of 4.875% per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The 2029 Notes mature on June 1, 2029, unless redeemed or repurchased in accordance with their terms prior to such date. The 2029 Notes are recorded at their carrying value and their fair value is used only for disclosure purposes, so an increase or decrease in interest rates would not have any impact to our condensed consolidated financial statements; however, if interest rates were to increase or decrease by 1%, their fair value could decrease by approximately \$36.5 million or increase by approximately \$25.4 million, respectively.

#### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2021.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management, including for future operations, capital expenditures, or share repurchases; any statements concerning proposed new products, services, or developments; any statements regarding future economic conditions or performance; any statements of belief or expectation; and any statements of assumptions underlying any of the foregoing or other future events. Forward-looking statements may include, among other, the words “may,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or any other similar words.*

*Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, many of which are beyond our control. Additionally, many of these risks and uncertainties are, and may continue to be, amplified by the COVID-19 pandemic. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include the following:*

- ① the potential impacts of the COVID-19 pandemic on us; our Members, customers, and supply chain; and the world economy;
- ① our ability to attract and retain Members;
- ① our relationship with, and our ability to influence the actions of, our Members;
- ① our noncompliance with, or improper action by our employees or Members in violation of, applicable U.S. and foreign laws, rules, and regulations;
- ① adverse publicity associated with our Company or the direct-selling industry, including our ability to comfort the marketplace and regulators regarding our compliance with applicable laws;
- ① changing consumer preferences and demands;
- ① the competitive nature of our business and industry;
- ① legal and regulatory matters, including regulatory actions concerning, or legal challenges to, our products or network marketing program and product liability claims;
- ① the Consent Order entered into with the FTC, the effects thereof and any failure to comply therewith;
- ① risks associated with operating internationally and in China;
- ① our dependence on increased penetration of existing markets;
- ① any material disruption to our business caused by natural disasters, other catastrophic events, acts of war or terrorism, cybersecurity incidents, pandemics and/or other acts by third parties;
- ① noncompliance by us or our Members with any privacy laws, rules, or regulations or any security breach involving the misappropriation, loss, or other unauthorized use or disclosure of confidential information;
- ① contractual limitations on our ability to expand or change our direct-selling business model;
- ① our reliance on our information technology infrastructure and manufacturing facilities and those of our outside manufacturers;
- ① the sufficiency of our trademarks and other intellectual property;
- ① product concentration;
- ① our reliance upon, or the loss or departure of any member of, our senior management team;
- ① restrictions imposed by covenants in the agreements governing our indebtedness;
- ① risks related to our convertible notes;
- ① changes in, and uncertainties relating to, the application of transfer pricing, customs duties, value added taxes, and other tax laws, treaties, and regulations, or their interpretation;
- ① our incorporation under the laws of the Cayman Islands; and
- ① share price volatility related to, among other things, speculative trading and certain traders shorting our common shares.

*Additional factors and uncertainties that could cause actual results to differ materially from our forward-looking statements are set forth in this Quarterly Report on Form 10-Q, including under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our Condensed Consolidated Financial Statements and the related Notes.*

*Forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.*

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings*

See discussion under Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

### Item 1A. *Risk Factors*

*Please carefully consider the following discussion of significant factors, events, and uncertainties that make an investment decision regarding our securities risky. The factors, events, uncertainties, and consequences discussed in these risk factors could, in circumstances we may not be able to accurately predict, recognize, or control, have a material adverse effect on our business, reputation, prospects, financial condition, operating results, cash flows, liquidity, and share price. These risk factors do not identify all risks that we face. We could also be affected by factors, events, or uncertainties that are not presently known to us or that we currently do not consider to present material risks.*

*Additionally, the COVID-19 pandemic has also amplified many of the other risks discussed below to which we are subject. We are unable to predict the duration and extent to which the pandemic and its related impacts will adversely impact our business, financial condition, and operating results as well as our share price. In addition, given the unpredictable, unprecedented, and fluid nature of the pandemic, it may also materially and adversely affect our business, financial condition, and operating results in ways that are not currently anticipated by or known to us or that we do not currently consider to present material risk.*

#### **Risk Factor Summary**

This risk factor summary contains a high-level summary of certain of the principal factors, events and uncertainties that make an investment in our securities risky, including risks related to our business and industry, risks related to regulatory and legal matters, risks related to our international operations, risks related to our indebtedness and risks related to our common shares. The following summary is not complete and should be read together with the more detailed discussion of these and the other factors, events and uncertainties set forth below before making an investment decision regarding our securities. The principal factors, events and uncertainties that make an investment in our securities risky include the following:

#### **Risks Related to Our Business and Industry**

- ① Our failure to establish and maintain Member and sales leader relationships could negatively impact sales of our products and materially harm our business, financial condition, and operating results.
- ① Because we cannot exert the same level of influence or control over our Members as we could if they were our employees, our Members could fail to comply with applicable law or our rules and procedures, which could result in claims against us that could materially harm our business, financial condition, and operating results.
- ① Adverse publicity associated with our Company or the direct-selling industry could materially harm our business, financial condition, and operating results.
- ① Our failure to compete successfully could materially harm our business, financial condition, and operating results.
- ① Our contractual obligation to sell our products only through our Herbalife Member network and to refrain from changing certain aspects of our Marketing Plan may limit our growth.
- ① Our failure to appropriately respond to changing consumer trends, preferences, and demand for new products and product enhancements could materially harm our Member relationships and our Members' customer relationships and product sales or otherwise materially harm our business, financial condition, and operating results.
- ① If we fail to further penetrate existing markets, the growth in sales of our products, along with our operating results could be negatively impacted.
- ① Since one of our products constitutes a significant portion of our net sales, significant decreases in consumer demand for this product or our failure to produce a suitable replacement, could materially harm our business, financial condition, and operating results.
- ① Our business could be materially and adversely affected by natural disasters, other catastrophic events, acts of war or terrorism, cybersecurity incidents, pandemics, and/or other acts by third parties.
- ① We depend on the integrity and reliability of our information technology infrastructure, and any related interruptions or inadequacies may have a material adverse effect on our business, financial condition, and operating results.

- ⌚ If any of our manufacturing facilities or third-party manufacturers fail to reliably supply products to us at required levels of quality or fail to comply with applicable laws, our financial condition and operating results could be materially and adversely impacted.
- ⌚ If we lose the services of members of our senior management team, our business, financial condition, and operating results could be materially harmed.
- ⌚ Our share price may be adversely affected by third parties who raise allegations about our Company.

#### **Risks Related to Regulatory and Legal Matters**

- ⌚ Our products are affected by extensive regulations, and our failure or our Members' failure to comply with any regulations could lead to significant penalties or claims, which could materially harm our financial condition and operating results.
- ⌚ Our network marketing program is subject to extensive regulation and scrutiny and any failure to comply, or alteration to our compensation practices in order to comply, with these regulations could materially harm our business, financial condition, and operating results.
- ⌚ We are subject to the Consent Order with the FTC, the effects of which, or any failure to comply therewith, could materially harm our business, financial condition, and operating results.
- ⌚ Our actual or perceived failure to comply with privacy and data protection laws, rules, and regulations could materially harm our business, financial condition, and operating results.
- ⌚ We are subject to material product liability risks, which could increase our costs and materially harm our business, financial condition, and operating results.
- ⌚ If we fail to protect our intellectual property, our ability to compete could be negatively affected, which could materially harm our financial condition and operating results.
- ⌚ If we infringe the intellectual property rights of others, our business, financial condition, and operating results could be materially harmed.
- ⌚ We may be held responsible for additional compensation, certain taxes, or assessments relating to the activities of our Members, which could materially harm our financial condition and operating results.

#### **Risks Related to Our International Operations**

- ⌚ A substantial portion of our business is conducted in foreign jurisdictions, exposing us to the risks associated with international operations.
- ⌚ We are subject to the anti-bribery laws, rules, and regulations of the United States and the other foreign jurisdictions in which we operate.
- ⌚ If we do not comply with transfer pricing, customs duties VAT, and similar regulations, we may be subject to additional taxes, customs duties, interest, and penalties in material amounts, which could materially harm our financial condition and operating results.
- ⌚ Our business in China is subject to general, as well as industry-specific, economic, political, and legal developments and risks and requires that we utilize a modified version of the business model we use elsewhere in the world.
- ⌚ The United Kingdom's exit from the European Union could adversely impact us.

#### **Risks Related to Our Indebtedness**

- ⌚ The terms and covenants in our existing indebtedness could limit our discretion with respect to certain business matters, which could harm our business, financial condition, and operating results.
- ⌚ The conversion or maturity of our convertible notes may adversely affect our financial condition and operating results, and their conversion into common shares could have a dilutive effect that could cause our share price to go down.

#### **Risks Related to Our Common Shares**

- ⌚ Holders of our common shares may have difficulties in protecting their interests because we are incorporated under Cayman Islands law.

- ⌚ Provisions of our articles of association and Cayman Islands law may impede a takeover or make it more difficult for shareholders to change the direction or management of the Company, which could reduce shareholders' opportunity to influence management of the Company.
- ⌚ There is uncertainty as to shareholders' ability to enforce certain foreign civil liabilities in the Cayman Islands.
- ⌚ U.S. Tax Reform may adversely impact certain U.S. shareholders of the Company.

### **Risks Related to Our Business and Industry**

***Our failure to establish and maintain Member and sales leader relationships could negatively impact sales of our products and materially harm our business, financial condition, and operating results.***

We distribute our products exclusively to and through our independent Members, and we depend on them directly for substantially all of our sales. To increase our revenue, we must increase the number and productivity of our Members. Accordingly, our success depends in significant part on our ability to recruit, retain, and motivate a large base of Members, including through an attractive compensation plan, the maintenance of an attractive product portfolio, and other incentives. The loss of a significant number of Members, our inability to generate sufficient interest in our business opportunities and products, or any legal or regulatory impact to our Members' ability to conduct their business could negatively impact sales of our products and our ability to attract and retain Members, each of which could have a material adverse effect on our business, financial condition, and operating results. In our efforts to attract and retain Members, we compete with other direct-selling organizations. In addition, our Member organization has a high turnover rate, which is common in the direct-selling industry, in part because our Members, including our sales leaders, may easily enter and exit our network marketing program without facing a significant investment or loss of capital. For example, the upfront financial cost to become a Member is low, we do not have time or exclusivity requirements, we do not charge for any required training, and, in substantially all jurisdictions, we maintain a buyback program.

We believe the COVID-19 pandemic could have an adverse impact on the pipeline of new Members and our Member turnover rate, and may impact our future net sales. See the *COVID-19 Pandemic* and *Sales by Geographic Region* sections in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q for further discussion of the impacts of the COVID-19 pandemic on our business and results of operations. For additional information regarding sales leader retention rates, see Part I, Item 1, *Business*, of our Annual Report on Form 10-K for the year ended December 31, 2020, or the 2020 10-K.

***Because we cannot exert the same level of influence or control over our Members as we could if they were our employees, our Members could fail to comply with applicable law or our rules and procedures, which could result in claims against us that could materially harm our business, financial condition, and operating results.***

Our Members are independent contractors and, accordingly, we are not in a position to provide the same direction, motivation and oversight as we could if Members were our employees. As a result, there can be no assurance that our Members will participate in our marketing strategies or plans, accept our introduction of new products, or comply with applicable legal requirements or our rules and procedures.

We are subject to extensive federal, state, local, and foreign laws, rules, and regulations that regulate our business, products, direct sales channel, and network marketing plan. See the *Regulation* section of Part I, Item 1, *Business*, of the 2020 10-K for additional information. While we have implemented policies and procedures designed to govern Member conduct and to protect the goodwill associated with Herbalife Nutrition, it can be difficult to enforce these policies and procedures because of our large number of Members and their status as independent contractors and because our policies and procedures differ by jurisdiction as a result of varying local legal requirements. In addition, although we train our Members and attempt to monitor our Members' marketing materials, we cannot ensure that our Members will comply with applicable legal requirements or our policies and procedures or that such marketing materials or other Member practices comply with applicable laws, rules, and regulations. It is possible that a court could hold us liable for the actions of our Members, which could materially harm our business, financial condition, and operating results.

***Adverse publicity associated with our Company or the direct-selling industry could materially harm our business, financial condition, and operating results.***

The size of our Member organization, our operating results, and our share price may be significantly affected by the public's perception of Herbalife Nutrition and other direct-selling companies. This perception is dependent upon opinions concerning a number of factors, including:

- ⌚ the safety, quality, and efficacy of our products, as well as those of similar companies;



- ① our Members;
- ② our network marketing program or the attractiveness or viability of the financial opportunities it may provide;
- ③ the direct-selling business generally;
- ④ actual or purported failure by us or our Members to comply with applicable laws, rules, and regulations, including those regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the registration of our products for sale in our target markets or other aspects of our business;
- ⑤ the security of our information technology infrastructure; and
- ⑥ actual or alleged impropriety, misconduct, or fraudulent activity by any person formerly or currently associated with our Members or us.

Adverse publicity concerning any of the foregoing whether or not accurate or resulting in investigation, enforcement, or other legal or regulatory actions or the imposition of fines, penalties, or other sanctions, could negatively impact the goodwill of our Company, our ability to attract, motivate, and retain Members, and our ability to generate revenue.

In addition, our Members' and consumers' perception of Herbalife Nutrition and our direct-selling business as well as similar companies can be significantly influenced by media attention, publicized scientific research or findings, product liability claims, and other publicity, whether or not it is legitimate. For example, as a result of the prevalence and marked increase in the use of blogs, social media platforms, and other forms of Internet-based communications, the opportunity for dissemination of information, both accurate and inaccurate, is seemingly limitless and readily available, and often does not provide any opportunity for correction or other redress.

Adverse publicity that associates use of our products or any similar products with adverse effects, questions the benefits of any such products, or claims that any such products are ineffective, inappropriately labeled, or have inaccurate instructions as to their use, could lead to lawsuits or other legal or regulatory challenges and could materially and adversely impact our reputation, the demand for our products, and our business, financial condition, and operating results.

Adverse publicity relating to us has had, and could again have, a negative effect on our ability to attract, motivate, and retain Members, and on our share price. For example, the resulting adverse publicity from the 1986 permanent injunction entered in California caused a rapid, substantial loss of Members in the United States and a corresponding reduction in sales beginning in 1985. See also the risk factor titled "*Our share price may be adversely affected by third parties who raise allegations about our Company.*" We expect that adverse publicity will, from time to time, continue to negatively impact our business in particular markets and may adversely affect our share price.

***Our failure to compete successfully could materially harm our business, financial condition, and operating results.***

The business of developing and marketing weight management and other nutrition and personal care products is highly competitive and sensitive to the introduction of new products and weight management plans, including various prescription drugs, which may rapidly capture a significant share of the market. Our competitors include numerous manufacturers; distributors; marketers; online, specialty, mass, and other retailers; and physicians that actively compete for the business of consumers both in the United States and abroad. Some of our competitors have longer operating histories, significantly greater resources, better-developed and more innovative sales and distribution channels and platforms, greater name recognition, and larger established customer bases than we do. Our present and future competitors may be able to better withstand reductions in prices or other adverse economic or market conditions than we can; develop products that are comparable or superior to those we offer; adapt more quickly or effectively to new technologies, changing regulatory requirements, evolving industry trends and standards, and customer requirements than we can; and/or devote greater resources to the development, promotion, and sale of their products than we do. We are also subject to significant competition for the recruitment of Members from other direct-selling organizations, including those that market weight management products, dietary and nutritional supplements, personal care products, and other types of products, as well as those organizations in which former employees or Members are involved. In addition, because the industry in which we operate is not particularly capital intensive or otherwise subject to high barriers to entry, it is relatively easy for new competitors to emerge that will compete with us, including for our Members and their customers. Accordingly, competition may intensify and we may not be able to compete effectively in our markets. If we are not able to retain our Members and their customers or otherwise compete successfully, our business, financial condition, and operating results would be materially adversely affected.

***Our contractual obligation to sell our products only through our Herbalife Member network and to refrain from changing certain aspects of our Marketing Plan may limit our growth.***

We are contractually prohibited from expanding our business by selling Herbalife products through other distribution channels that may be available to our competitors, such as over the Internet, through wholesale sales, by establishing retail stores or through mail order systems. To the extent legally permitted, an agreement we entered into with our Members provides assurances that we will not sell Herbalife products worldwide through any distribution channel other than our network of independent Herbalife Members. Since this is an open-ended commitment, there can be no assurance that we will be able to take advantage of innovative new distribution channels that are developed in the future.

In addition, this agreement with our Members provides that we will not make any material changes adverse to our Members to certain aspects of our Marketing Plan that may negatively impact our Members without their approval as described in further detail below. For example, our agreement with our Members provides that we may increase, but not decrease, the discount percentages available to our Members for the purchase of products or the applicable royalty override percentages, and production and other bonus percentages available to our Members at various qualification levels within our Member hierarchy. We may not modify the eligibility or qualification criteria for these discounts, royalty overrides and production and other bonuses unless we do so in a manner to make eligibility and/or qualification easier than under the applicable criteria in effect as of the date of the agreement. Our agreement with our Members further provides that we may not vary the criteria for qualification for each Member tier within our Member hierarchy, unless we do so in such a way so as to make qualification easier.

Although we reserved the right to make these changes to our Marketing Plan without the consent of our Members in the event that changes are required by applicable law or are necessary in our reasonable business judgment to account for specific local market or currency conditions to achieve a reasonable profit on operations, we may initiate other changes that are adverse to our Members based on an assessment of what will be best for the Company and its Members. Under the agreement with our Members, these other adverse changes would then be submitted to our Member leadership for a vote. The vote would require the approval of at least 51% of our Members then at the level of President's Team earning at the production bonus level of 6% who vote, provided that at least 50% of those Members entitled to vote do in fact vote. While we believe this agreement has strengthened our relationship with our existing Members, improved our ability to recruit new Members and generally increased the long-term stability of our business, there can be no assurance that our agreement with our Members will not restrict our ability to adapt our Marketing Plan to the evolving requirements of the markets in which we operate. As a result, our growth may be limited.

***Our failure to appropriately respond to changing consumer trends, preferences, and demand for new products and product enhancements could materially harm our Member relationships and our Members' customer relationships and product sales or otherwise materially harm our business, financial condition, and operating results.***

Our business is subject to rapidly changing consumer trends and preferences and product introductions, especially with respect to our nutrition products. Our continued success depends in part on our ability to anticipate and respond to these changes and introductions, and we may not respond or develop new products or product enhancements in a cost-effective, timely, or commercially appropriate manner, or at all, particularly while the COVID-19 pandemic persists. The success of our new product offerings and enhancements depends on a number of factors, including our ability to:

- ① accurately anticipate consumer needs;
- ① innovate and develop new products and product enhancements that meet these needs;
- ① successfully commercialize new products and product enhancements;
- ① price our products competitively;
- ① manufacture and deliver our products in sufficient volumes, at our required levels of quality, and in a cost-effective and timely manner; and
- ① differentiate our product offerings from those of our competitors and successfully respond to other competitive pressures, including technological advancements, evolving industry standards, and changing regulatory requirements.

Our failure to accurately predict changes in consumer demand and technological advancements could negatively impact consumer opinion of our products or our business, which in turn could harm our Member relationships and the Members' relationships with their customers, and cause the loss of sales. In addition, if we do not introduce new products or make enhancements to meet the changing needs of our Members and their customers in a cost-effective, timely, and commercially appropriate manner, or if our competitors release new products or product enhancements before we do, some of our product offerings could be rendered obsolete, which could cause our market share to decline and negatively impact our business, financial condition, and operating results.

***If we fail to further penetrate existing markets, the growth in sales of our products, along with our operating results, could be negatively impacted.***

The success of our business is to a large extent contingent on our ability to further penetrate existing markets, which is subject to numerous factors, many of which are out of our control. Our ability to increase market penetration may be limited by the finite number of persons in a given country inclined to pursue a direct-selling business opportunity or consumers aware of, or willing to purchase, Herbalife Nutrition products. Moreover, our growth in existing markets will depend upon increased brand awareness and improved training and other activities that enhance Member retention in our markets. While we have recently experienced significant growth in certain of our foreign markets, we cannot assure you that such growth levels will continue in the immediate or long-term future. Furthermore, our efforts to support growth in such foreign markets could be hampered to the extent that our infrastructure in such markets is deficient when compared to our infrastructure in our more developed markets, such as the United States. For example, there can be no assurances that we will be able to successfully manage expansion of manufacturing operations and a growing and dynamic sales force in China. If we are unable to effectively scale our supply chain and manufacturing infrastructure to support future growth in China or other foreign markets, our operations in such markets may be adversely impacted. Therefore, we cannot assure you that our general efforts to increase our market penetration and Member retention in existing markets will be successful. If we are unable to further penetrate existing markets, our business, financial condition, and operating results could materially suffer.

***Since one of our products constitutes a significant portion of our net sales, significant decreases in consumer demand for this product or our failure to produce a suitable replacement could materially harm our business, financial condition, and operating results.***

Our Formula 1 Healthy Meal, which is our best-selling product line, approximated 28% of our net sales for the year ended December 31, 2020. If consumer demand for this product decreases significantly or we cease offering this product without a suitable replacement, or if the replacement product fails to gain market acceptance, our business, financial condition, and operating results could be materially harmed.

***Our business could be materially and adversely affected by natural disasters, other catastrophic events, acts of war or terrorism, cybersecurity incidents, pandemics, and/or other acts by third parties.***

We depend on the ability of our business to run smoothly, including the ability of Members to engage in their day-to-day selling and business building activities and the ability of our inventories and products to move reasonably unimpeded around the world. Any material disruption caused by unforeseen or catastrophic events, such as (i) natural disasters or severe weather conditions, including fires, floods, hurricanes, volcanic eruptions, and earthquakes; (ii) power loss or shortages; (iii) telecommunications or information technology infrastructure failures; (iv) acts or threats of war, terrorism, or other armed hostilities; (v) outbreaks of contagious diseases, epidemics, and pandemics; (vi) cybersecurity incidents, including intentional or inadvertent exposure of content perceived to be sensitive data; (vii) employee misconduct or error; and/or (viii) other actions by third parties and other similar disruptions, could adversely affect our ability to conduct business and our Members' selling activities. For example, our operations in Central America were impacted in November 2020 when Hurricanes Eta and Iota made landfall in the region. The storms created disruptions to our supply chain transportation network and our ability to import product. In addition, our distribution center in Honduras experienced flooding, which damaged or destroyed product. Furthermore, our headquarters and one of our distribution facilities and manufacturing facilities are located in Southern California, an area susceptible to fires and earthquakes. Although the events in Central America did not have a material negative impact on our operations, we cannot make assurances that any future catastrophic events will not adversely affect our ability to operate our business or our financial condition and operating results. In addition, catastrophic events may result in significant cancellations of Member orders; contribute to a general decrease in local, regional, or global economic activity; directly impact our marketing, manufacturing, financial, or logistics functions; impair our ability to meet Member demands; harm our reputation; and expose us to significant liability, losses, and legal proceedings, any of which could materially and adversely affect our business, financial condition, and operating results.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The COVID-19 pandemic has significantly impacted health and economic conditions globally, and has adversely affected the Company's business and that of its Members in certain of the Company's markets and may continue to so impact those markets or others in the future. Government, agency, and other regulatory recommendations, guidelines, mandates, and actions to address public health concerns, including restrictions on movement, public gatherings, and travel and restrictions on, or in certain cases outright prohibitions of, companies' ability to conduct normal business operations, have and may continue to adversely affect our business. Although we have been classified as an essential business in most jurisdictions where we operate, there is no guarantee that this classification will not change. We may also be forced to or voluntarily elect to limit or cease operations in one or more markets for other reasons, such as the health and safety of our employees or because of disruptions in the operation of our supply chain and sources of supply. For example, it is possible that closures of our manufacturing facilities could impact our distribution centers and our ability to manufacture and deliver products to our Members. In general, our inventory of products continues to be adequate to meet demand, but we do expect our supply chain and our ability to source and/or manufacture products will be negatively impacted if the negative effects of the pandemic continue for a prolonged period of time or worsen. The pandemic has had an adverse impact on our distribution channels and Members' product access in some markets, which may, and in some cases will, continue until conditions improve. Our Members' businesses are also subject to many of the same risks and uncertainties related to the COVID-19 pandemic, as well as other pandemic-related risks and uncertainties that may not directly impact our operations, any of which could adversely affect demand for our products. For example, limitations on public gatherings has restricted our Members' ability to hold meetings with their existing customers and to attract new customers. Significant limitations on cash transactions could also have an adverse effect on sales of products in certain markets.

The COVID-19 pandemic has also adversely affected the economies and financial markets of many countries, at times causing a significant deceleration of or interruption to economic activity. This slowdown has reduced production, decreased demand for a broad variety of goods and services, diminished trade levels and led to widespread corporate downsizing, causing a sharp increase in unemployment. We have also seen periods of significant disruption of and extreme volatility in the global capital markets, which could increase the cost of, or entirely restrict access to, capital. Further, while some countries have progressed in distributing COVID-19 vaccines to the general population, many countries have limited to no access to vaccines at this time. To the extent the global supply of vaccine remains limited or vaccination rates do not significantly increase, government restrictions in the countries with limited to no access or low vaccination rates may persist or increase and economic activity may remain at depressed levels in those countries or regions.

Despite the relaxation of pandemic-related constraints in certain markets, considerable uncertainty still surrounds the COVID-19 pandemic, its potential effects and the extent and effectiveness of government responses to the pandemic. If the pandemic is not contained, or if effective vaccines are not made available and utilized quickly enough, the adverse impacts of the COVID-19 pandemic could worsen, impacting all segments of the global economy, and result in a significant recession or worse. However, the unprecedented and sweeping nature of the COVID-19 pandemic makes it extremely difficult to predict how our business and operations will be affected in the long run. Accordingly, our ability to conduct our business in the manner previously done or planned for the future could be materially and adversely affected, and any of the foregoing risks, or other cascading effects of the COVID-19 pandemic that are not currently foreseeable, could materially and adversely affect our business, financial condition, and operating results. See the *COVID-19 Pandemic* and *Sales by Geographic Region* sections in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q for further discussion of the impacts of the COVID-19 pandemic on our business and operating results.

***We depend on the integrity and reliability of our information technology infrastructure, and any related interruptions or inadequacies may have a material adverse effect on our business, financial condition, and operating results.***

Our business, including our ability to provide products and services to and manage our Members, depends on the performance and availability of our information technology infrastructure, including our core transactional systems. The most important aspect of our information technology infrastructure is the system through which we record and track Member sales, Volume Points, royalty overrides, bonuses, and other incentives. The failure of our information systems to operate effectively, or a breach in security of these systems, could adversely impact the promptness and accuracy of our product distribution and transaction processing. While we continue to invest in our information technology infrastructure, there can be no assurance that there will not be any significant interruptions to such systems or that the systems will be adequate to meet all of our business needs. Our information technology infrastructure, as well as that of our Members and the other third parties with which we interact, may be damaged, disrupted, or breached or otherwise fail for a number of reasons, including power outages, computer and telecommunication failures, internal design, manual or usage errors, workplace violence or wrongdoing, or catastrophic events such as natural disasters, severe weather conditions, or acts of war or terrorism. In addition, numerous and evolving cybersecurity threats, including advanced and persistent cyberattacks, such as unauthorized attempts to access, disable, improperly modify, exfiltrate, or degrade our information technology infrastructure, or the introduction of computer viruses, malware, “phishing” emails, and other destructive software, and social engineering schemes, could compromise the confidentiality, availability, and integrity of our information technology infrastructure as well as those of the third parties with which we interact. These attacks may come from external sources, such as governments or hackers, or may originate internally from an employee or a third party with which we interact. We have been the target of, and may be the target of in the future, malicious cyber-attacks, although to date none of these attacks have had a meaningful adverse impact on our business, financial condition, or operating results. Additionally, in response to the COVID-19 pandemic, many of our employees have been encouraged to work remotely, which may increase our exposure to significant systems interruptions, cybersecurity attacks, and otherwise compromise the integrity and reliability of our information technology infrastructure and our internal controls.

Any disruptions to, or failures or inadequacies of, our information technology infrastructure that we may encounter in the future may result in substantial interruptions to our operations, expose us to significant liability, and may damage our reputation and our relationships with, or cause us to lose, our Members, especially if the disruptions, failures, or inadequacies impair our ability to track sales and pay royalty overrides, bonuses, and other incentives, any of which would harm our business, financial condition and operating results. Any such disruptions, failures, or inadequacies could also create compliance risks under the Consent Order and result in penalties, fines, or sanctions under any applicable laws or regulations. Furthermore, it may be expensive or difficult to correct or replace any aspect of our information technology infrastructure in a timely manner, if at all, and we may have little or no control over whether any malfunctioning information technology services supplied to us by third parties are appropriately corrected, if at all. We have encountered, and may encounter in the future, errors in our software and our enterprise network, and inadequacies in the software and services supplied by certain of our vendors, although to date none of these errors or inadequacies have had a meaningful adverse impact on our business, financial condition or operating results.

***If any of our manufacturing facilities or third-party manufacturers fail to reliably supply products to us at required levels of quality or fail to comply with applicable laws, our financial condition and operating results could be materially and adversely impacted.***

Any significant interruption of production at any of our manufacturing facilities or third-party contract manufacturers, or other interruption in our supply chain, may materially harm our business, financial condition, and operating results. For example, natural disasters, including earthquakes, fires, hurricanes, or floods, technical issues, work stoppages, or other unforeseen or catastrophic events, that result in significant interruption of production at any of our facilities or third-party contract manufacturers could impede our ability to conduct business. While we have business continuity programs for our manufacturing facilities which contemplate and plan for such events, if we were to experience such an event resulting in the temporary, partial, or complete shutdown of one of these manufacturing facilities, we could be required to transfer manufacturing to a surviving facility and/or third-party contract manufacturers if permissible. When permissible, converting or transferring manufacturing could be expensive and time-consuming, result in delays in our production or shipping, reduce our net sales, damage our relationship with Members, and damage our reputation, any of which could harm our business, financial condition, and operating results. Additionally, we cannot assure you that our third-party contract manufacturers will continue to reliably supply products to us at the levels of quality, or the quantities, we require, and in compliance with applicable laws, including the FDA's CGMP regulations. Our product supply contracts generally have three-year terms. Except for force majeure events, such as natural disasters and other acts of God, and non-performance by Herbalife Nutrition, our contract manufacturers generally cannot unilaterally terminate these contracts. These contracts can generally be extended by us at the end of the relevant time-period and we have exercised this right in the past. Globally, we have over 50 contract manufacturers, with Fine Foods (Italy) being a major supplier for meal replacements, protein powders and nutritional supplements. Our contract manufacturers are also located in the United States, India, Brazil, South Korea, Taiwan, Germany, and the Netherlands. If any of our contract manufacturers were to become unable or unwilling to continue to provide us with products in required volumes, at suitable quality levels, or in a cost-effective manner, we would be required to identify and obtain replacement manufacturing sources. There is no assurance that we would be able to obtain acceptable alternative manufacturing sources on a cost-effective or timely basis, or at all. An extended interruption in the supply of our products, including any interruptions that may arise as a result of the COVID-19 pandemic, would result in the loss of sales, which could have a material adverse effect on our business, financial condition, or operating results. In addition, any actual or perceived degradation of product quality as a result of reliance on contract manufacturers may have an adverse effect on sales or result in increased product returns and buybacks.

As a result of the COVID-19 pandemic, we and our contract manufacturers have experienced some delays in receiving and delivering certain ingredients and packaging components. While these delays have not materially impacted our supply levels, there is no guarantee that there will be sufficient global supply for us or our contract manufacturers to manufacture our products at sufficient levels to meet demand or at the pre-pandemic levels. Given the uncertainties surrounding COVID-19, including the duration and extent of the pandemic, and actions taken or to be taken by governmental authorities and the resulting impacts from those responses to us and our third-party suppliers and contract manufacturers, we cannot guarantee that we will have a sufficient and reliable supply of ingredients and other raw materials from our third-party suppliers or products from our contract manufacturers. In addition, if price changes within our supply chain lead to unexpected or significant increases in the costs of any ingredients, raw materials, or other products we source, we may be unwilling or unable to increase our product prices or unable to effectively hedge against price increases or find alternative suppliers at lower cost. We are actively monitoring the pandemic and economic conditions and their potential impact on our supply chain and operations. Additionally, while we are not presently aware of any current liquidity issues with our suppliers or contract manufacturers, we cannot assure you that they will not experience financial hardship as a result of the COVID-19 pandemic, economic conditions, or otherwise, which could impact their ability to meet our needs.

***If we lose the services of members of our senior management team, our business, financial condition, and operating results could be materially harmed.***

We depend on the continued services of our senior management team as it works closely with the senior Member leadership to create an environment of inspiration, motivation, and entrepreneurial business success. Although we have entered into employment agreements with certain members of our senior management team, and do not believe that any of them are planning to leave or retire in the near term, we cannot assure you that all members of our senior management team will remain with us. The loss or departure of any member of our senior management team could adversely impact our Member relations and operating results. Also, the loss of key personnel, including our regional and country managers, could negatively impact our ability to implement our business strategy, and our continued success will also be dependent on our ability to retain existing, and attract additional, qualified personnel to meet our needs. Further, to the extent we are required to replace members of senior management or key personnel, any significant leadership change or transition involves inherent risk and any failure to ensure a smooth transition could hinder our strategic planning and execution, adversely impact our Member relations, or cause our business to suffer. While we strive to mitigate any negative impact associated with changes to our senior management team or key personnel, there may be uncertainty among investors, employees, Members, and others concerning our future direction and performance. Any disruption in our operations or uncertainty could have a material adverse effect on our business, financial condition, and operating results. We currently do not maintain "key person" life insurance with respect to our senior management team.

***Our share price may be adversely affected by third parties who raise allegations about our Company.***

Short sellers and others who raise allegations regarding our business activities, some of whom are positioned to profit if our share price declines, can negatively affect our share price. For example, in late 2012, a hedge fund manager publicly raised allegations regarding the legality of our network marketing program, our product safety, our accounting practices, and other matters, and announced that his fund had taken a significant short position regarding our common shares, leading to intense public scrutiny and significant share price volatility. Following this public announcement, our share price dropped significantly. Additionally, from time to time we are subject to various legal proceedings, including governmental and regulatory inquiries and inquiries from legislators, that may adversely affect our share price. Significant volatility of our share price may cause the value of a shareholder's investment to decline rapidly.

**Risks Related to Regulatory and Legal Matters**

***Our products are affected by extensive regulations and our failure or our Members' failure to comply with any regulations could lead to significant penalties or claims, which could materially harm our financial condition and operating results.***

The majority of our products are classified as foods, dietary supplements, and cosmetics. In both domestic and foreign markets, the formulation, manufacturing, packaging, labeling, distribution, advertising, importation, exportation, licensing, sale, and storage of our products are subject to extensive government regulation. This regulation takes the form of laws, governmental regulations, administrative determinations, court decisions, and other similar constraints and exists at the federal, state, and local levels in the United States and at all levels of government in foreign jurisdictions. There can be no assurance that we or our Members are, or will remain, in compliance with all of these regulations. Our failure or our Members' failure to comply with applicable regulations could disrupt the manufacturing of our products, our marketing activity, our Members' sale of our products, or lead to increased costs, legal or regulatory proceedings, the imposition of significant penalties, or harm our reputation, any of which could adversely impact our business, financial condition, and operating results. In addition, regulatory authorities periodically review legislative and regulatory policies and initiatives, and may promulgate new or revised, or adopt changes in the interpretation and enforcement of existing, regulations at any time. The adoption of new regulations or changes in the interpretations of existing regulations, such as those relating to genetically modified foods, may result in significant compliance costs or discontinuation of impacted product sales and may negatively impact the marketing of our products or require us to change or cease aspects of our business, any of which could result in significant loss of sales and harm our business, financial condition, and operating results.

For example, we are subject to the rules of the FDA, including for CGMPs. Any failure by us or our contract manufacturers to comply with the CGMPs could negatively impact our reputation and ability to sell our products even after the situation has been rectified and, in the case of our contract manufacturers, even though we are not directly liable under the CGMPs for their compliance. In complying with the dietary supplement CGMPs, we have experienced increases in production costs due to increases in required testing of raw ingredients, work in process, and finished products. In addition, regulators and other governmental authorities limit the types of claims that we and our Members can make about our products, including nutrition content claims, health claims, and therapeutic claims and otherwise regulate the marketing of our products. For example, the FTC's Guides explain how the FTC interprets prohibitions on unfair or deceptive acts or practices. Consequently, the FTC could bring an enforcement action based on practices that are inconsistent with the Guides. The Consent Order entered into with the FTC in 2016 also includes restrictions regarding the marketing of our products. It is possible that our use, and that of our Members, of marketing materials, including testimonials about our products, may be significantly impacted by laws, rules, and regulations governing the marketing of our products and therefore might negatively impact our sales.

From time to time, we receive inquiries from regulators and third parties requesting information concerning our products. We fully cooperate with these inquiries including, when requested, by the submission of detailed technical documents addressing product composition, manufacturing, process control, quality assurance, and contaminant testing. We are confident in the safety of our products when used as directed. However, there can be no assurance that regulators, including in countries where we plan to commence or expand operations, will not take actions that may adversely affect our business and our sales, including preventing or delaying entry into markets or the introduction of new products or requiring the reformulation or the temporary or permanent withdrawal of certain of our existing products from their markets. Any such regulatory action, regardless of whether it results in a final determination adverse to us, could create negative publicity, with detrimental effects on the motivation and recruitment of Members and, consequently, on sales. For example, the Chinese government carried out a 100-day review, or the Review, in 2019 to investigate the unlawful promotion and sales of health products, which resulted in negative media attention to the health products industry and materially and adversely impacted our business in China in 2019 as Members significantly reduced activities and sales meetings during and following the Review. Additionally, in response to the COVID-19 pandemic, the FTC has increased its scrutiny of claims being made by companies and issued hundreds of warning letters to, and initiated enforcement actions against, companies making health claims related to the ability of their products to treat, cure, or prevent COVID-19 or business opportunity claims related to COVID-19.

***Our network marketing program is subject to extensive regulation and scrutiny and any failure to comply, or alteration to our compensation practices in order to comply, with these regulations could materially harm our business, financial condition, and operating results.***

Our network marketing program, like the compensation practices of other direct-selling organizations, is subject to a number of federal, state, and foreign regulations administered by the FTC and other federal, state, and foreign agencies. Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, sometimes referred to as “pyramid” or “chain sales” schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on genuine demands and sales of the organization’s products rather than investments in the organization or other non-retail sales-related criteria. For example, in certain foreign countries, compensation to distributors in the direct-selling industry may be limited to a certain percentage of sales.

The regulatory requirements concerning network marketing programs do not include “bright line” rules and are inherently fact-based and, thus, we are subject to the risk that these regulations or the enforcement or interpretation of these regulations by regulators or courts can change. Regulatory authorities also periodically review legislative and regulatory policies and initiatives and may promulgate new or revised regulations. For example, in 2018, the FTC released its nonbinding Business Guidance Concerning Multi-Level Marketing. The adoption of new regulations, or changes in the interpretations or enforcement of existing regulations, may result in significant compliance costs or require us to change or cease aspects of our network marketing program. In addition, the ambiguity surrounding these regulations can also affect the public perception of the Company and our business model. For example, in the past, allegations regarding the legality of our network marketing program have been raised, which led to intense public scrutiny and significant share price volatility.

From time to time, we are a party to various regulatory proceedings related to compliance with regulations applicable to our network marketing program. We are also subject to the risk of private party challenges to the legality of our network marketing program, and similar programs of other companies have been successfully challenged in the past. Legal proceedings may cause us to incur significant expenses, including legal fees and costs for remediation efforts, and result in fines, penalties, sanctions, adverse judgments, or negative publicity, any of which could materially harm our business, financial condition, and operating results and impact our share price. For example, in one or more markets, our network marketing program could be found not to be in compliance, or a court could issue an adverse determination with respect to our network marketing program specifically or with respect to network marketing practices generally in proceedings not involving us, any of which may require us to alter our compensation practices under our network marketing program and adversely impact our ability to recruit and maintain Members or to obtain or maintain a license, permit, or similar certification. As previously disclosed, the Consent Order entered into with the FTC in 2016 and the 1986 permanent injunction entered in California required us to make changes to our network marketing program and our business operations. There can be no assurances that federal, state, or foreign regulators or courts will not require similar actions in the future. While we believe we are in compliance with regulations applicable to our network marketing program, including those enforced by the Consent Order and the permanent injunction in California, there is no assurance that any federal, state, or foreign courts or regulators or the independent compliance auditor under the Consent Order would agree. The failure of our network marketing program to comply with current or newly adopted laws, rules, and regulations, the Consent Order, or the California injunction, or any allegations or charges to that effect brought by federal, state, or foreign regulators, could have a material adverse impact our business in a particular market or in general and may adversely affect our share price.

***We are subject to the Consent Order with the FTC, the effects of which, or any failure to comply therewith, could materially harm our business, financial condition, and operating results.***

As previously disclosed, in July 2016, we entered into the Consent Order with the FTC. As part of the Consent Order, we agreed to make a payment of \$200 million and to implement, and continue to enhance, certain procedures in the United States. We also agreed, among other things, to (i) be subject to certain audits by an independent compliance auditor, or the ICA, for a period of seven years; (ii) requirements regarding compliance certification and record creation and maintenance; (iii) a prohibition on misrepresentations and misleading claims made by us or our Members regarding the income potential of participants in our network marketing program and misleading depictions of lavish lifestyles; and (iv) restrictions on distributors’ ability to open Nutrition Clubs in the United States. The FTC and ICA have the right to inspect Company records and request additional compliance reports for purposes of conducting audits pursuant to the Consent Order. The terms of the Consent Order are described in greater detail in our Current Report on Form 8-K filed on July 15, 2016.



The Consent Order, including our compliance therewith and the procedures implemented as a result thereof, has impacted, and may continue to impact, our business operations, including our net sales and profitability. For example, the Consent Order includes a number of restrictions and requirements, including regarding the verification and receipting of sales, and therefore creates compliance risks and costs. As a result, we have implemented a number of enhanced procedures regarding, among other things, tracking retail sales and internal consumption by distributors. We have also instituted controls and procedures and developed technology solutions that we believe address our Consent Order requirements, including tools and software used by distributors to document their sales and more efficiently track and manage their customer base. However, there can be no assurances that some or all of these controls and procedures and technology solutions will continue to operate as expected. These controls and procedures and technology solutions have been, and may continue to be, costly. These extensive costs or any amounts in excess of our cost estimates could have a material adverse effect on our financial condition and operating results. In addition, any failure of these systems to operate as designed could cause us to fail to maintain the records required under, or otherwise violate terms of, the Consent Order.

Further, management and our board of directors have been, and may continue to be, required to focus a substantial amount of time on Consent Order compliance activities, which could divert their attention from running and growing our business. At any time, we may also be required to suspend or defer many or all of our current or anticipated business development, capital deployment and other projects unrelated to compliance with the Consent Order to allow resources to be focused on our compliance efforts, which could cause us to fall short of any guidance or analyst or investor expectations. In addition, while we believe the Consent Order has set new standards within the direct-selling industry, our competitors are not required to comply with the Consent Order and may not be subject to similar actions, which could limit our ability to effectively compete for Members, customers, and ultimately sales.

A number of our Members disagreed with our decision to enter into the Consent Order, whether because they disagreed with certain terms thereof, they believed it would negatively impact their personal business, or they would not have settled the investigation on any terms. Compliance with the Consent Order, however, requires the cooperation of our Members and, while we have updated our training programs and policies to address the Consent Order and expect our Members to cooperate, we do not have the same level of influence or control over our Members as we would if they were our employees. Failure by our Members to comply with the relevant aspects of the Consent Order could be a violation of the Consent Order and impact our ability to comply. In addition, the Consent Order provides that if the total eligible U.S. sales on which compensation may be paid falls below 80% of the Company's total U.S. sales for a given year, compensation payable to distributors on eligible U.S. sales will be capped at 41.75% of the Net Rewardable Sales amount as defined in the Consent Order. Because our business is dependent on our Members, our business operations and net sales could be adversely affected if U.S. distributor compensation is restricted or if any meaningful number of Members are dissatisfied, choose to reduce activity levels, or leave our business altogether. Member dissatisfaction may also negatively impact the willingness of new Members to join Herbalife Nutrition as a distributor.

The Consent Order also creates additional third-party risks. The Consent Order does not prevent other third parties from bringing actions against us, whether in the form of other federal, state, or foreign regulatory proceedings or private litigation, any of which could lead to monetary settlements, fines, penalties, or injunctions. Although we neither admitted nor denied the allegations in the FTC's complaint (except as to the Court having jurisdiction over the matter), third parties may use specific statements or other matters addressed in the Consent Order as the basis for their action. The Consent Order has caused, and any subsequent legal or regulatory claim may also lead to, negative publicity, whether because some view it as a condemnation of the Company or our direct-selling business model or because other third parties use it as justification to make unfounded and baseless assertions against us, our business model, or our Members. An increase in the number, severity or scope of third-party claims, actions or public assertions may result in substantial costs and harm to our reputation. The Consent Order may also impact third parties' willingness to work with us as a company.

We believe we have complied with the Consent Order and we will continue to do so. However, the FTC or ICA may not agree now or in the future. In the event we are found to be in violation of the Consent Order, the FTC could take corrective actions such as initiating enforcement actions, seeking an injunction or other restrictive orders and imposing civil monetary penalties against us and our officers and directors. Further, the impact of the Consent Order on our business, including the effectiveness of the controls, procedures, and technology solutions implemented to comply therewith, and on our Member base could be significant. If our business or Member base is adversely impacted, it is uncertain as to whether, or how quickly, we would be able to restructure or rebuild, irrespective of market conditions. Our financial condition and operating results could be materially harmed if we fail to comply with the Consent Order, if costs related to compliance exceed our estimates, if it has a negative impact on net sales, or if it leads to further legal, regulatory, or compliance claims, proceedings, or investigations or litigation.

***Our actual or perceived failure to comply with privacy and data protection laws, rules, and regulations could materially harm our business, financial condition, and operating results.***

Our business requires the collection, transmission, and retention of large volumes of confidential and proprietary information, including personally identifiable information of our Members, customers, leads, vendors, and employees in various information technology systems that we maintain and in those maintained by third parties with which we interact. Anyone who is able to circumvent our security measures or those of our third-party service providers could misappropriate such confidential or proprietary information, including that of third parties such as our Members, cause interruption in our operations, damage our information technology infrastructure or otherwise damage our business. We may need to expend significant resources to protect against security breaches or to address problems caused by such breaches. Any actual security breaches could result in legal and financial exposure, including litigation and other potential liability, and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition, and operating results and our reputation as a brand, business partner, and employer. In addition, employee error or malfeasance or other errors in the storage, use, or transmission of any such information could result in disclosure to third parties. If this should occur, we could incur significant expenses addressing such problems. Since we collect and store Member, customer, and vendor information, including credit card banking information, these risks are heightened. In addition, our role as a credit card merchant may also put us at a greater risk of being targeted by hackers and requires us to comply with certain regulatory requirements. See also the risk factor titled “*We depend on the integrity and reliability of our information technology infrastructure, and any related interruptions or inadequacies may have a material adverse effect on our business, financial condition, and operating results.*”

In addition, the use and handling of certain types of information, including personally identifiable and financial information, is regulated by evolving and increasingly demanding laws, rules, and regulations, such as the European Union General Data Protection Regulation, which became effective in May 2018, the Brazil Law on General Data Protection, which became effective in September 2020, the California Consumer Privacy Act, or the CCPA, which became effective in January 2020, and the European Union Payment Services Directive 2, which became effective in January 2021 and requires stronger customer authentication for online transactions in that region. These laws impose continuing, and at times new, responsibilities on our operations, including, among other things, the collection, deletion, disclosure, and maintenance of personally identifiable and financial information of our customers and Members and could present technological challenges and negatively impact our sales. These privacy and data security laws, rules, and regulations are increasing in their complexity, enactment, and amendments. As such, compliance with these laws, rules, and regulations and potential and actual conflicts amongst them in the various jurisdictions in which we operate have resulted in greater compliance burden and risk and increased costs for us. If we fail to comply with these privacy and data security laws, rules, and regulations, we could be subject to significant litigation, monetary damages, and regulatory enforcement actions or fines in one or more jurisdictions, which could have a material adverse effect on our operating results.

***We are subject to material product liability risks, which could increase our costs and materially harm our business, financial condition, and operating results.***

Our ingestible products include vitamins, minerals, botanicals, and other ingredients and are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain ingredients that do not have long histories of human consumption or use. Although we rely upon published and unpublished safety information, including clinical studies on ingredients used in our products, and conduct limited clinical studies on some key products, unknown adverse reactions resulting from human consumption or use of these ingredients could occur. We have been, and may again be, subjected to various product liability claims, including claims that the products contain contaminants, include inadequate instructions as to their uses, and include inadequate warnings concerning side effects and interactions with other substances. It is possible that widespread product liability claims could increase our costs and materially adversely affect our business, financial condition, and operating results. Even claims without merit could subject us to adverse publicity and require us to incur significant legal fees. Moreover, product liability claims may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may not cover all product liability claims, which may require us to pay substantial monetary damages. Finally, even if our insurance covers a claim, given the level of self-insured retentions that we have accepted under our current product liability insurance policies, which is \$12.5 million, in certain cases we may be subject to the full amount of liability associated with any claims, which could be substantial.

***If we fail to protect our intellectual property, our ability to compete could be negatively affected, which could materially harm our financial condition and operating results.***

Our success and the market for our products depend to a significant extent upon the goodwill associated with our trademark and tradenames and our ability to protect our proprietary rights in our innovative products and product enhancements. We own, or have licenses to use, the material trademark and trade name rights used in connection with the packaging, marketing, and distribution of our products in the markets where those products are sold. Therefore, trademark and trade name protection is important to our business. Although most of our trademarks are registered in the United States and in certain foreign countries in which we operate, we may not be successful in asserting trademark or trade name protection or obtaining new trademark registrations. We permit the limited use of our trademarks by our Members to assist them in marketing our products. It is possible that doing so may increase the risk of unauthorized use or misuse of our trademarks in markets where their registration status differs from that asserted by our Members, or they may be used in association with claims or products in a manner not permitted under applicable laws, rules, and regulations. Were these to occur, it is possible that this could diminish the value of these marks or otherwise impair our further use of these marks.

We attempt to protect our innovative products and product enhancements under a combination of copyright, trademark, and trade secret laws, confidentiality procedures, and contractual provisions. However, our products are generally not patented domestically or abroad, and the legal protections afforded by common law and contractual proprietary rights in our products provide only limited protection.

Monitoring infringement or misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect every infringement or misappropriation of our proprietary rights or to prevent third parties from infringing upon or misappropriating our proprietary rights or from independently developing non-infringing products that are competitive with, equivalent to, or superior to our products. Even if we do detect infringement or misappropriation of our proprietary rights, litigation to enforce these rights could cause us to divert financial and other resources away from our business operations and may result in the impairment or loss of all or portions of our proprietary rights. Further, the laws of some foreign countries do not protect our intellectual property to the same extent as do the laws of the United States. For example, there is limited protection of intellectual property available under Chinese law. Accordingly, we face an increased risk in China that unauthorized parties may attempt to copy or otherwise obtain or use our trademarks, copyrights, product formulations or other intellectual property. Further, because Chinese commercial law is relatively undeveloped, we may have limited legal recourse in the event we encounter significant difficulties with intellectual property theft or infringement. As a result, we cannot assure you that we will be able to adequately protect our intellectual property in any jurisdictions. The loss or infringement of our trademarks or tradenames or other proprietary rights could impair the goodwill associated with our brands and harm our reputation, which could materially harm our business, financial condition, and operating results.

***If we infringe the intellectual property rights of others, our business, financial condition, and operating results could be materially harmed.***

Third parties may claim that products or marks that we have independently developed or licensed, or which bear certain of our trademarks, infringe upon their intellectual property rights and there can be no assurance that one or more of our products or marks will not be found to infringe upon third-party intellectual property rights in the future and we may need to settle disputes on terms that are unfavorable to us, or we may be subject to an unfavorable judgment. Defending these and other intellectual property infringement claims can be time-consuming and costly and require the attention of management. The terms of any settlement or judgment may require us to pay substantial amounts to the other party or cease, or seek a license to continue, using products or marks found to be in violation of third-party intellectual property rights. A license may not be available on reasonable terms, or at all, and we may be required to develop alternative non-infringing products or marks or discontinue use of such products or marks. Any development efforts could require significant effort and expense. Any of the foregoing could have a material adverse effect on our business, financial condition, and operating results.

***We may be held responsible for additional compensation, certain taxes, or assessments relating to the activities of our Members, which could materially harm our financial condition and operating results.***

Our Members are subject to certain taxation, and in some instances, we are required to collect taxes from our Members, such as value-added tax, or VAT, and social contributions, and to maintain appropriate records. In addition, if local laws, rules, and regulations or their interpretation change to require us to treat our Members as employees, or if our Members are deemed by regulatory authorities to be our employees rather than independent contractors, in any such jurisdictions we may be held responsible for additional compensation, social security or similar contributions, withholding, and related taxes, and workers' compensation insurance, plus any related assessments and penalties, which could materially harm our financial condition and operating results. Our Members could face similar risks with respect to other Members in their sales organizations who may claim they are employees of that Member rather than independent contractors or independent business owners, which could impact their sales operations or lead them to cease their participation in our network marketing program. For example, California passed legislation, taking effect January 1, 2020, which seeks to expand the classification of employees. Other states may propose similar legislation or interpret existing laws, rules, and regulations to expand the classification of employees. Although the California legislation provides an exemption for direct sellers, there can be no assurance that other jurisdictions will provide such an exemption or that judicial or regulatory authorities will not assert interpretations that would mandate that we change our classification. See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for a more specific discussion of contingencies related to the activities of our Members.

#### **Risks Related to Our International Operations**

***A substantial portion of our business is conducted in foreign jurisdictions, exposing us to the risks associated with international operations.***

Approximately 76% of our net sales for the year ended December 31, 2020 were generated outside the United States, exposing our business to risks associated with international operations. We have invested significant resources in our international operations and expect to continue to do so in the future. However, there are certain risks inherent in doing business in international markets, particularly in the direct-selling industry, which is regulated in many jurisdictions.

For example, a foreign government may impose trade restrictions or increased tariffs, require compliance with trade and economic sanctions laws, rules, or regulations, such as those administered by U.S. Customs and Border Protection and the U.S. Treasury Department's Office of Foreign Assets Control, implement new or change existing trade policies, or otherwise limit or restrict our ability to import products in a cost-effective manner, or at all, any of which could negatively impact our operations. Additionally, we may be negatively impacted by conflicts with or disruptions caused or faced by our third-party importers, as well as conflicts between such importers and local governments or regulators.

Our operations in some jurisdictions also may be adversely affected by political, economic, legal, regulatory, and social conditions, or instability, as well as by economic and political tensions between governments. For example, tariffs enacted by the United States and other foreign governments, such as China or Mexico, that apply to our products or our ingredients may have an adverse impact on the costs and future sales of our products, particularly if we deem it necessary to increase product prices. In addition, our compliance with anti-bribery laws, rules, and regulations may conflict with local customs and practices in certain of the jurisdictions in which we operate. See the risk factor titled "*We are subject to the anti-bribery, laws, rules, and regulations of the United States and the other foreign jurisdictions in which we operate.*"

Our ability to staff and manage our international operations could also be affected by laws and regulations related to immigration. For example, current and future tightening of U.S. immigration controls may adversely affect the residence status of non-U.S. employees in our U.S. locations or our ability to hire new non-U.S. employees in such locations and may adversely affect the ability of non-U.S. Members from entering the United States.

We are also exposed to risks associated with foreign currency fluctuations, foreign exchange controls, limitations on the repatriation of funds, and changes in currency policies or practices. For instance, purchases from suppliers are generally made in U.S. dollars while sales to Members are generally made in local currencies. Accordingly, any strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Although we engage in transactions to protect against risks associated with foreign currency fluctuations, we cannot be certain any hedging activity will effectively reduce our exchange rate exposure. In addition, due to the possibility of government restrictions on transfers of cash out of a country and control of exchange rates, we may not be able to immediately repatriate cash at the official exchange rate. If this should occur, or if the official exchange rate devalues, it may have a material adverse effect on our business, assets, financial condition, liquidity, operating results, or cash flows. For example, currency restrictions enacted by the Venezuelan government continue to impact the ability of our subsidiary in Venezuela, or Herbalife Venezuela, to obtain U.S. dollars in exchange for Venezuelan Bolívares at the official foreign exchange rate and limit Herbalife Venezuela's ability to import U.S. dollar denominated raw materials and finished goods, both of which have significantly negatively impacted our Venezuelan operations. We may be required to fundamentally change or cease operations in Venezuela or any other jurisdiction that may be similarly affected in the future. If these restrictions intensify or do not improve and impact our ability to control our Venezuelan operations, we may be required to deconsolidate Herbalife Venezuela for U.S. GAAP purposes and would be subject to the risk of further impairments.

Our overall success depends, in part, on our ability to anticipate and effectively manage these risks, and to coordinate the various legal and regulatory requirements of multiple jurisdictions that are constantly evolving and subject to change, and there can be no assurance that we will be able to do so without incurring unexpected or increased costs or at all. In certain regions, the degree of these risks may be higher due to more volatile economic, political, or social conditions; less developed and predictable legal and regulatory regimes; and increased potential for various types of adverse governmental action. As we continue to focus on expanding our existing international operations, these and other risks associated with international operations will likely increase, which could materially harm our business, financial condition, and operating results.

***We are subject to the anti-bribery laws, rules, and regulations of the United States and the other foreign jurisdictions in which we operate.***

We are subject to a variety of anti-bribery laws, rules, and regulations, including the U.S. Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act of 2010 and similar anti-bribery laws, rules, and regulations in the other foreign jurisdictions in which we operate. These regimes generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business as well as require companies to maintain accurate books and records. There has been a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and criminal and civil enforcement proceedings brought against companies and individuals by regulators, including the Department of Justice, or DOJ, and the SEC. Our policies mandate compliance with these anti-bribery laws, rules, and regulations, including the requirements to maintain accurate information and internal controls. We operate in many parts of the world that have experienced governmental corruption to some degree and in certain circumstances, strict compliance with anti-bribery laws, rules, and regulations may conflict with local customs and practices. Notwithstanding our compliance programs, which include annual training and certification requirements, there is no assurance that our internal policies and procedures will protect us from acts committed by our employees or agents. Additionally, we cannot predict the nature, scope, or effect of future anti-bribery requirements or the manner in which existing or new requirements might be administered or interpreted. Alleged or actual violations of any such existing or future laws, rules, or regulations, whether due to our own acts or inadvertence or to the acts or inadvertence of others, may result in criminal or civil sanctions, including fines, penalties, contract cancellations, or debarment, increased compliance costs, changes to our activities, and loss of reputation, any of which could have a material adverse effect on our business, financial condition, and operating results.

As previously disclosed, the SEC and the DOJ conducted investigations into our compliance with the FCPA in China. Also, as previously disclosed, we conducted our own review and implemented remedial and improvement measures based upon this review, including replacement of certain employees and enhancements of our policies and procedures in China. We cooperated with the SEC and the DOJ and have now reached separate resolutions with each of them. On August 28, 2020, the SEC accepted the Offer of Settlement and issued an administrative order finding that we violated the books and records and internal controls provisions of the FCPA. In addition, on August 28, 2020, we and the DOJ separately entered into a court-approved deferred prosecution agreement, or DPA, under which the DOJ deferred criminal prosecution of the Company for a period of three years related to a conspiracy to violate the books and records provisions of the FCPA. Among other things, we are required to undertake compliance self-reporting obligations for the three-year terms of the agreements with the SEC and the DOJ. If we remain in compliance with the DPA during its three-year term, the deferred charge against us will be dismissed with prejudice. In addition, we paid the SEC and the DOJ aggregate penalties, disgorgement, and prejudgment interest of approximately \$123 million in September 2020. Any failure to comply with these agreements, or any resulting further government action, could result in a material and adverse impact to our business, financial condition, and operating results.

***If we do not comply with transfer pricing, customs duties, VAT, and similar regulations, we may be subject to additional taxes, customs duties, interest, and penalties in material amounts, which could materially harm our financial condition and operating results.***

As a multinational corporation operating in many countries, we are subject to transfer pricing and other tax regulations designed to ensure that our intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned by our United States and local entities, and that we are taxed appropriately on such transactions. In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products.

If the United States Internal Revenue Service, or the IRS, or the taxing authorities of any other jurisdiction were to successfully challenge our transfer pricing practices or our positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, and sales and use and other taxes, we could become subject to higher taxes and may increase product prices in certain jurisdictions accordingly. The imposition of new taxes, even pass-through taxes such as VAT could result in increased product prices in certain jurisdictions. Any increases in prices could adversely affect product demand and therefore could have a negative impact on our business, financial condition, and operating results. From time to time, we are a party to various regulatory proceedings related to compliance with applicable tax regulations, including audits, examinations, and investigations. We are currently subject to ongoing audits that are at various levels of review, assessment, or appeal in a number of jurisdictions involving issues of transfer pricing, income taxes, customs duties, value added taxes, withholding taxes, and sales and use and other taxes. In some circumstances, additional taxes, interest, and penalties have been assessed. We have reserved in our consolidated financial statements an amount that we believe represents the most likely outcome of the resolution of these audits, but if we are incorrect in our assessment we may have to pay additional amounts, which could potentially be material. Ultimate resolution of these ongoing audits may take several years, and the outcome is uncertain. See Note 5, *Contingencies*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q for further information on contingencies relating to tax matters.

In addition, any change in applicable tax laws, rules, treaties, or regulations, or their interpretation, could result in a higher effective tax rate on our worldwide earnings. For example, the Organisation for Economic Co-operation and Development, or OECD, has released guidance covering various international tax standards as part of its “base erosion and profit shifting,” or BEPS, initiative. The anticipated implementation of BEPS by non-U.S. jurisdictions in which we operate could result in changes to tax laws, rules, and regulations, including with respect to transfer pricing, that could materially increase our effective tax rate. For example, on October 8, 2021, the OECD issued a statement announcing that 136 of its 140 members had agreed upon two groups of proposals for global tax reform, labeled “Pillar One” and “Pillar Two.” Pillar One is focused on providing a mechanism for taxing rights more closely aligned with market engagement (generally where people or consumers are located). Pillar Two is focused on establishing a global minimum tax rate and would apply when a country’s income tax rate is below a minimum tax rate of at least 15%. The framework’s implementation plan targets 2023 for full implementation of Pillar One and the end of 2022 for full implementation of Pillar Two, though details regarding the exact steps (and timing) of the framework’s implementation are unclear. This framework is wide ranging and could affect all multinational enterprises across all industries, including ours, by increasing our effective tax rate on earnings. No assurances can be given that future legislative, regulatory, or judicial developments will not result in an increase in the amount of taxes payable by us. If any such developments occur, our business, financial condition, and operating results could be materially and adversely affected.

***Our business in China is subject to general, as well as industry-specific, economic, political, and legal developments and risks and requires that we utilize a modified version of the business model we use elsewhere in the world.***

Our business and operations in China, which generated approximately 15% of our net sales for the year ended December 31, 2020, are subject to unique risks and uncertainties related to general economic, political and legal developments. The Chinese government exercises significant control over the Chinese economy, including by controlling capital investments, allocating resources, setting monetary policy, controlling and monitoring foreign exchange rates, implementing and overseeing tax regulations, providing preferential treatment to certain industry segments or companies and issuing necessary licenses to conduct business. Accordingly, any adverse change in the Chinese economy, the Chinese legal system or Chinese governmental, economic or other policies could have a material adverse effect on our business and operations in China and our prospects generally.

China has published regulations governing direct selling, prohibiting pyramid promotional schemes, regulating e-commerce, and a number of related administrative methods and proclamations have been issued. To operate under these regulations, we created and introduced a modified business model specific to China based on our understanding of how Chinese regulators interpret and enforce these regulations, our own interpretation of applicable regulations and the enforcement thereof, and our understanding of the practices of other licensed direct-selling organizations in China.

In China, we sell our products to and through independent service providers and sales representatives, to preferred customers and other customers, as well as through Company-operated retail platforms when necessary. We also have a social e-commerce business in China, which enables our sales representatives who are also individual e-commerce promoters and independent service providers to promote our products and provide services to our customers in China through virtual online stores. Our independent service providers must meet requirements to operate their own business under Chinese law, which prohibits fraudulent or misleading claims and engaging in any pyramid sales schemes, as well as our policies. In China, our independent service providers receive compensation for marketing, sales support, and other services instead of the Member allowances and royalty overrides utilized in our network marketing plan outside China. The service hours and related fees eligible to be earned by the independent service providers are based on a number of factors, including the sales generated through them and through others to whom they may provide marketing, sales support and other services, the quality of their service, and other factors. Total compensation available to our independent service providers in China can generally be comparable to the total compensation available to other sales leaders globally. The Company does this by performing an analysis in our worldwide system to estimate the potential compensation available to the service providers, which can generally be comparable to that of sales leaders in other countries. After adjusting such amounts for other factors and dividing by each service provider's hourly rate, we then notify each independent service provider the maximum hours of work for which they are eligible to be compensated in the given month. In order for a service provider to be paid, the Company requires each service provider to invoice the Company for their services and submit a timesheet of such services and, upon the Company's request, service providers may be required to submit additional supporting documents for the Company's further verification. These and other business model features in China are not common to the business model we employ elsewhere in the world, and we expect our business model in China will continue to incorporate some or all of these features, and any failure of this model or our business to comply with Chinese law could materially and negatively impact our business, financial condition, and operating results.

Direct-selling regulations in China require us to apply for various approvals to conduct direct selling in China. The process for obtaining the necessary licenses to conduct direct selling is protracted and cumbersome and involves multiple layers of Chinese governmental authorities and numerous governmental employees at each layer. While direct-selling licenses are centrally issued, such licenses are generally valid only in the jurisdictions within which related approvals have been obtained, and such approvals are generally awarded on local and provincial bases. Accordingly, there can be no assurance that we will obtain additional, or maintain our existing, direct-selling licenses and approvals in China that are important to our business, which could materially and negatively impact our business, financial condition, and operating results. The approval process is guided by distinct Chinese practices and customs, and is subject to applicable laws of China and the other jurisdictions in which we operate our business, including the United States, as well as our internal policies, such as our code of ethics. There is a risk that in attempting to comply with local customs and practices in China during the application process or otherwise, we will fail to comply with applicable requirements or violate the laws of another jurisdiction, any of which could prevent us from obtaining direct-selling licenses or other approvals or result in adverse publicity or legal or regulatory proceedings. Furthermore, we rely on certain key personnel in China, including to assist us during the approval process and to maintain our licenses, and the loss of any such key personnel could delay or hinder our ability to obtain or maintain licenses or related approvals or otherwise negatively impact our operations in China.

Additionally, there continues to be uncertainty regarding the interpretation and enforcement of Chinese regulations. The regulatory environment in China continues to evolve, and officials at all levels of the Chinese, provincial, and local government exercise broad discretion in deciding how to interpret, apply, and enforce regulations as they deem appropriate. Regulators in China may modify existing, or introduce new, regulations or interpretations. There can be no guarantee that changes in regulations, or their interpretation or enforcement, will not negatively impact our business in China, create industry reputational risk, result in regulatory proceedings, or lead to fines or penalties against us or our Chinese Members. If our business practices are deemed to be in violation of applicable regulations, in particular with respect to the factors used in determining the services a service provider is eligible to perform and service fees they are eligible to earn and receive, we could be sanctioned and/or required to change our business model, either of which could have a significant adverse impact on our business in China. In addition, the Chinese government rigorously monitors markets, including the direct-selling market, in China and in the past has taken serious action against companies engaged in activities that the government regarded as in violation of applicable law, including shutting down their businesses and imposing substantial fines, such as the Review, which investigated unlawful promotion and sales within the health products industry. There is no guarantee the government will not revisit its focus on health products, expand its investigation to cover direct-selling business models, or otherwise launch into a new investigation or multiple investigations that may result in a material adverse effect to our business in China.

***The United Kingdom's exit from the European Union could adversely impact us.***

In June 2016, in a referendum vote commonly referred to as "Brexit," a majority of British voters voted to exit the European Union and, in March 2017, the British government delivered formal notice of the U.K.'s intention to leave the European Union. On January 31, 2020, the U.K. formally exited the European Union. The British government has reached a formal agreement with the European Union regarding the terms of the U.K.'s exit, but it is unclear whether additional agreements will need to be negotiated in the future and what long-term economic, financial, trade, and legal implications the exit of the U.K. from the European Union will have and how such exit could affect our business globally and in the region. The exit could potentially disrupt the free movement of goods, services, and people between the U.K. and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the European Union or other nations as the U.K. pursues independent trade relations. It could also lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate. In addition, Brexit may lead other European Union member countries to consider referendums regarding their European Union membership. Any of these events, along with any political, economic and regulatory changes that may occur, could cause political and economic uncertainty in Europe and globally and materially harm our business, financial condition, and operating results.

**Risks Related to Our Indebtedness**

***The terms and covenants in our existing indebtedness could limit our discretion with respect to certain business matters, which could harm our business, financial condition, and operating results.***

Our senior secured credit facility, or the 2018 Credit Facility, and the indentures governing the senior notes due September 1, 2025, or the 2025 Notes, and the senior notes due June 1, 2029, or the 2029 Notes, have restrictive covenants that limit our and our subsidiaries' ability to, among other things:

- ① pay dividends, redeem share capital or capital stock and make other restricted payments and investments;
- ② sell assets or merge, consolidate, or transfer all or substantially all of our subsidiaries' assets;
- ③ incur or guarantee additional debt;
- ④ impose dividend or other distribution restrictions on our subsidiaries; and
- ⑤ create liens on our and our subsidiaries' assets.

In addition, the 2018 Credit Facility requires us to meet certain financial ratios and financial conditions. These covenants could limit our ability to grow our business, take advantage of attractive business opportunities, successfully compete, obtain future financing, withstand future downturns in our business or the economy in general, or otherwise conduct necessary corporate activities.

Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Failure to comply with these covenants could result in an event of default. Upon the occurrence of an event of default under any of our debt agreements, the lenders or noteholders, as applicable, could cause all outstanding amounts under such agreements to become due and payable, and it could trigger a cross-default with respect to other outstanding indebtedness under certain circumstances. The 2018 Credit Facility is secured by the equity interests of certain of our subsidiaries and substantially all of the assets of the domestic loan parties, and the lenders thereunder could proceed to foreclose on such assets if we are unable to repay or refinance any accelerated debt under the 2018 Credit Facility. Following an event of default, the lenders under our revolving credit facility would also have the right to terminate any commitments they have to provide further borrowings.

The required interest payments on our indebtedness under the 2018 Credit Facility or other agreements may be impacted by expected reforms related to the London Interbank Offered Rate, or LIBOR. The variable interest rates applicable under the 2018 Credit Facility are linked to LIBOR as the benchmark rate for establishing such rates. Recent national, international, and other regulatory guidance and reform proposals regarding LIBOR are requiring certain LIBOR tenors to be discontinued or become unavailable by the end of 2021 and LIBOR to be fully discontinued or become unavailable as a benchmark rate by June 2023. Although the 2018 Credit Facility includes mechanics to facilitate the adoption by us and our lenders of an alternative benchmark rate for use in place of LIBOR, no assurance can be made that such alternative benchmark rate will perform in a manner similar to LIBOR or result in interest rates that are at least as favorable to us as those that would have resulted had LIBOR remained in effect, which could result in an increase in our interest expense and other debt service obligations. In addition, the overall credit market may be disrupted as a result of the replacement of LIBOR or in the anticipation thereof, which could have an adverse impact on our ability to refinance, reprice, or amend our existing indebtedness or incur additional indebtedness on favorable terms or at all.



***The conversion or maturity of our convertible notes may adversely affect our financial condition and operating results, and their conversion into common shares could have a dilutive effect that could cause our share price to go down.***

We issued convertible senior notes due on March 15, 2024, or the 2024 Convertible Notes, in the aggregate principal amount of \$550 million. Prior to December 15, 2023, under certain circumstances, holders of our 2024 Convertible Notes may convert their notes at their option. On and after December 15, 2023, holders may convert their 2024 Convertible Notes at any time.

The 2024 Convertible Notes may be settled in cash, common shares, or a combination of cash and common shares, at our option. If one or more holders elect to convert their 2024 Convertible Notes when conversion is permitted, we could elect to make cash payments to satisfy our conversion obligations, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their 2024 Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal amount of our 2024 Convertible Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital. Payment of cash upon conversion of the 2024 Convertible Notes, or any adverse change in the accounting treatment of the 2024 Convertible Notes, may adversely affect our financial condition and operating results, each of which could in turn adversely impact the amount or timing of future potential share repurchases or the payment of dividends to our shareholders.

In addition, if any or all of the 2024 Convertible Notes are converted into common shares, our existing shareholders will experience immediate dilution of voting rights and our share price may decline. Furthermore, the perception that such dilution could occur may cause our share price to decline. Because the conversion rate of the 2024 Convertible Notes adjusts upward upon the occurrence of certain events, existing shareholders may experience further dilution if any or all of the 2024 Convertible Notes are converted into common shares and the currently effective adjusted conversion rate is further adjusted. For more information regarding the conversion features of our 2024 Convertible Notes, including the events that allow for early conversion and the current conversion rate, see Note 4, *Long-Term Debt*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

### **Risks Related to Our Common Shares**

***Holders of our common shares may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.***

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Act (as revised), or the Companies Act, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly defined as and may be different from those under statutes or judicial precedent in existence in jurisdictions in the United States. In particular, the Cayman Islands has a less prescriptive body of corporate laws compared to the United States, and certain states, such as Delaware, may have more fulsome and judicially interpreted bodies of corporate law. Therefore, shareholders may have more difficulty in protecting their interests in the face of actions by our management or board of directors than would shareholders of a corporation incorporated in a jurisdiction in the United States.

For example, shareholders of Cayman Islands exempted companies such as Herbalife Nutrition Ltd. have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our articles of association to determine whether, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

A shareholder may have a direct right of action against us where its individual rights have been, or are about to be, infringed. Our Cayman Islands counsel, Maples and Calder (Cayman) LLP, is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability of such actions. In most cases, however, we would be the proper plaintiff where an action is brought to redress any loss or damage suffered by us, or based on a breach of duty owed to us, and a claim, for example, against our officers or directors, usually may not be brought by a shareholder. However, based on English authorities, which would likely be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle may apply where:

- ① a company is acting or proposing to act illegally or outside the scope of its corporate authority;
- ① the act complained of, although not beyond the scope of the company's corporate authority, could be effected only if authorized by more than the number of votes of the shareholders of the company actually obtained; or
- ① those who control the company are perpetrating a "fraud on the minority".

***Provisions of our articles of association and Cayman Islands law may impede a takeover or make it more difficult for shareholders to change the direction or management of the Company, which could reduce shareholders' opportunity to influence management of the Company.***

Our articles of association contain certain provisions which could have an effect of discouraging a takeover or other transaction or preventing or making it more difficult for shareholders to change the direction or management of our Company. For example, our articles of association permit our board of directors to issue preference shares from time to time, with such rights and preferences as they consider appropriate. Our board of directors could authorize the issuance of preference shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction. In addition, our articles of association prohibit the ability of shareholders to act by written consent, limit the ability of shareholders to call special meetings of shareholders, and contain advance notice provisions. As a result, our shareholders may have less input into the management of our Company than they might otherwise have if these provisions were not included in our articles of association.

The Companies Act contains provisions to facilitate mergers and consolidations between Cayman Islands companies and non-Cayman Islands companies (provided that is facilitated by the laws of such other jurisdiction). These provisions, contained within Part XVI of the Companies Act, are broadly similar to the merger provisions provided for under Delaware law.

There are, however, important differences that could impede a takeover. For example, the threshold for approval of the merger plan by shareholders is higher. The threshold is a special resolution of the shareholders (being 66 2/3% of those present in person or by proxy and voting) together with such other authorization, if any, as may be specified in the articles of association. Additionally, the consent of each holder of a fixed or floating security interest is required to be obtained unless the Grand Court of the Cayman Islands waives such requirement.

The Companies Act contains separate provisions that provide for the merger, reconstruction, and amalgamation of companies pursuant to court-approved arrangements. These are commonly referred to in the Cayman Islands as "schemes of arrangement." The procedural and legal requirements necessary to consummate a scheme of arrangement are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States. Under Cayman Islands law and practice, a scheme of arrangement in relation to a solvent Cayman Islands company must be approved at a shareholders' meeting by a majority in number of each class of the company's shareholders who are present and voting (either in person or by proxy) at such meeting. The shares voted in favor of the scheme of arrangement must also represent at least 75% of the value of each relevant class of the company's shareholders present and voting at the meeting. The convening of these meetings and the terms of the arrangement must also be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect creditors' interests. Furthermore, the court will only approve a scheme of arrangement if it is satisfied that:

- ⌚ the company is not proposing to act illegally or beyond the scope of its corporate authority and the statutory provisions as to majority vote have been complied with;
- ⌚ the shareholders who voted at the meeting in question fairly represent the relevant class of shareholders to which they belong;
- ⌚ the scheme of arrangement is such as a businessman would reasonably approve; and
- ⌚ the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act or that would amount to a "fraud on the minority."

If the scheme of arrangement is approved, dissenting shareholders would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of U.S. corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, if an offer by a third party to purchase shares has been approved by the holders of at least 90% of the issued and outstanding shares (not including shares held by such third party) within four months of the third party making such offer, the third party may, during the two months following expiration of the four-month period, require the holders of the remaining shares to transfer their shares on the same terms on which the purchaser acquired the first 90% of the issued and outstanding shares. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

Further, transactions similar to a merger, reconstruction and/or an amalgamation may in some cases be achieved through means other than these statutory provisions, such as a share capital exchange, asset acquisition or control, or through contractual arrangements of an operating business.

***There is uncertainty as to shareholders' ability to enforce certain foreign civil liabilities in the Cayman Islands.***

We are incorporated as an exempted company with limited liability under the laws of the Cayman Islands and a material portion of our assets are located outside of the United States.

Herbalife Nutrition Ltd. has been advised by its Cayman Islands legal counsel, Maples and Calder (Cayman) LLP, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against Herbalife Nutrition Ltd. judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against Herbalife Nutrition Ltd. predicated upon the civil liability provisions of the securities laws of the United States or any state, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign money judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud, or obtained in a manner, and or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Mail addressed to the Company and received at its registered office will be forwarded unopened to the forwarding address supplied by the Company. None of Herbalife Nutrition Ltd., its directors, officers, advisors or service providers (including the organization that provides registered office services in the Cayman Islands) will bear any responsibility for any delay caused in mail reaching the forwarding address.

***U.S. Tax Reform may adversely impact certain U.S. shareholders of the Company.***

If a U.S. shareholder owns 10% or more of our common shares, it may be subject to increased U.S. federal income taxation under the "controlled foreign corporation," or CFC, rules. A non-U.S. corporation will be classified as a CFC for any particular taxable year, if U.S. persons (including individuals and entities) who own (directly, indirectly, or constructively) 10% or more of the voting power or value of shares, or 10% U.S. Shareholders, own, in the aggregate, more than 50% of the total combined voting power or value of the shares. In determining whether a shareholder is treated as a 10% U.S. Shareholder, the voting power of the shares and any special voting rights, such as to appoint directors, may also be taken into account. In addition, certain constructive ownership rules apply, which attribute share ownership among certain family members and certain entities and their owners. Such constructive ownership rules may also attribute share ownership to persons that are entitled to acquire shares pursuant to an option, such as the holders of our 2024 Convertible Notes.

As a result of certain changes to the CFC constructive ownership rules introduced by the Tax Cuts and Jobs Act of 2017, or U.S. Tax Reform, one or more of our non-U.S. corporate subsidiaries that were not previously classified as CFCs are now classified as CFCs, including on a retroactive basis. For 10% U.S. Shareholders, this may result in adverse tax consequences. Generally, 10% U.S. Shareholders of a CFC are required to include currently in gross income their respective shares of (i) the CFC's "Subpart F income" (e.g. items of passive income and certain income resulting from inter-company sales and services), (ii) the CFC's earnings (that have not been subject to tax under the Subpart F rules) to the extent the CFC holds certain U.S. property, and (iii) the CFC's global intangible low-taxed income pursuant to the U.S. Tax Reform. Such 10% U.S. Shareholders are subject to current U.S. federal income tax with respect to the foregoing income items, even if the CFC has not made an actual distribution to such shareholders.

While we do not believe that Herbalife Nutrition Ltd. is classified as a CFC, such entity and one or more of our non-U.S. corporate subsidiaries not already classified as CFCs could become classified as CFCs either as a result of (i) additional changes to tax laws, rules, or regulations, including future pronouncements or other guidance from the IRS or (ii) an increase in the percentage ownership of our common shares by shareholders who hold, or in the future may hold, 10% or more of our common shares, whether as a result of future share acquisitions, the impact of any share repurchases we may undertake, or otherwise.

Shareholders who own, or contemplate owning, 10% or more of our shares (taking into account the impact of any share repurchases we may undertake and the constructive ownership rules) are urged to consult their tax advisors.

No assurances can be given that future legislative, administrative, or judicial developments will not result in an increase in the amount of U.S. taxes payable by an investor in our shares. If any such developments occur, such developments could have a material and adverse effect on an investment in our shares.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None.

(b) None.

(c) On February 9, 2021, our board of directors authorized a new three-year \$1.5 billion share repurchase program that will expire on February 9, 2024, which replaced our prior share repurchase authorization that was set to expire on October 30, 2023 and had approximately \$7.9 million of remaining authorized capacity when it was replaced. This share repurchase program allows us, which includes an indirect wholly-owned subsidiary of Herbalife Nutrition Ltd., to repurchase our common shares at such times and prices as determined by management, as market conditions warrant, and to the extent Herbalife Nutrition Ltd.'s distributable reserves are available under Cayman Islands law. The 2018 Credit Facility permits us to repurchase our common shares as long as no default or event of default exists and other conditions, such as specified consolidated leverage ratios, are met. As of September 30, 2021, the remaining authorized capacity under our \$1.5 billion share repurchase program was approximately \$1.2 billion. The following is a summary of our repurchases of common shares during the three months ended September 30, 2021. For further information on our share repurchases, see Note 10, *Shareholders' Deficit*, to the Condensed Consolidated Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
<b>July 1 — July 31</b>	776,898	\$ 52.08	776,898	\$ 1,340,499,038
<b>August 1 — August 31</b>	656,645	\$ 50.68	656,645	\$ 1,307,221,916
<b>September 1 — September 30</b>	1,993,754	\$ 44.30	1,993,754	\$ 1,218,898,344
	<u>3,427,297</u>	\$ 47.29	<u>3,427,297</u>	\$ 1,218,898,344

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

(a) None.

(b) None.

**Item 6. Exhibits**

(a) Exhibit Index:

**EXHIBIT INDEX**

Exhibit Number	Description	Reference
3.1	<a href="#">Amended and Restated Memorandum and Articles of Association of Herbalife Nutrition Ltd.</a>	(t)
4.1	<a href="#">Form of Share Certificate</a>	(c)
4.2	<a href="#">Indenture between Herbalife Ltd. (n/k/a Herbalife Nutrition Ltd.) and MUFG Union Bank, N.A., as trustee, dated as of March 23, 2018, governing the 2.625% Convertible Senior Notes due 2024</a>	(k)
4.3	<a href="#">Form of Global Note for 2.625% Convertible Senior Notes due 2024 (included as Exhibit A to Exhibit 4.2 hereto)</a>	(k)
4.4	<a href="#">Indenture among Herbalife Nutrition Ltd., HLF Financing, Inc., the guarantors party thereto and MUFG Union Bank, N.A., as trustee, dated as of May 29, 2020, governing the 7.875% Senior Notes due 2025</a>	(u)
4.5	<a href="#">Form of Global Note for 7.875% Senior Notes due 2025 (included as Exhibit A to Exhibit 4.4 hereto)</a>	(u)
4.6	<a href="#">Indenture among HLF Financing SaRL, LLC, Herbalife International, Inc., the guarantors party thereto and Citibank, N.A., as trustee, dated as of May 20, 2021, governing the 4.875% Senior Notes due 2029</a>	(y)
4.7	<a href="#">Form of Global Note for 4.875% Senior Notes due 2029 (included as Exhibit A to Exhibit 4.6 hereto)</a>	(y)
10.1#	<a href="#">Form of Second Amendment and Restatement of the Herbalife International of America, Inc. Senior Executive Deferred Compensation Plan</a>	(r)
10.2#	<a href="#">Form of Second Amendment and Restatement of the Herbalife International of America, Inc. Management Deferred Compensation Plan</a>	(r)
10.3#	<a href="#">Notice to Distributors, dated as of July 18, 2002, regarding Amendment to Agreements of Distributorship, between Herbalife International, Inc. and each Herbalife Distributor</a>	(a)
10.4#	<a href="#">Side Letter Agreement dated as of April 3, 2003 by and among WH Holdings (Cayman Islands) Ltd., Michael O. Johnson and the Shareholders listed therein</a>	(a)
10.5	<a href="#">Form of Indemnification Agreement between Herbalife Ltd. and each of its directors and certain of its officers</a>	(b)
10.6#	<a href="#">Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan</a>	(d)
10.7#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Unit Award Agreement</a>	(i)
10.8#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Stock Appreciation Right Award Agreement</a>	(i)
10.9#	<a href="#">Herbalife Ltd. Employee Stock Purchase Plan</a>	(l)
10.10#	<a href="#">Amended and Restated Herbalife Ltd. Non-Management Directors Compensation Plan</a>	(e)
10.11#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Non-Employee Directors Stock Appreciation Right Award Agreement</a>	(e)
10.12#	<a href="#">Amended and Restated Severance Agreement, dated as of February 23, 2011, by and between Desmond Walsh and Herbalife International of America, Inc.</a>	(f)
10.13#	<a href="#">Form of Amendment to Amended and Restated Herbalife Ltd. 2005 Stock Incentive Plan</a>	(f)
10.14#	<a href="#">Form of Herbalife Ltd. 2005 Stock Incentive Plan Performance Condition Stock Appreciation Right Award Agreement</a>	(n)
10.15#	<a href="#">Amended and Restated Herbalife Ltd. 2014 Stock Incentive Plan</a>	(x)
10.16#	<a href="#">Herbalife Ltd. Executive Incentive Plan</a>	(f)
10.17	<a href="#">Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment</a>	(g)
10.18#	<a href="#">Herbalife International of America, Inc. Executive Officer Severance Plan</a>	(h)
10.19#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Unit Award Agreement (Performance-Vesting)</a>	*
10.20#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Unit Award Agreement</a>	*
10.21#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Stock Appreciation Right Award Agreement</a>	(j)
10.22#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Lead Director Stock Unit Award Agreement</a>	*
10.23#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Board of Directors Stock Unit Award Agreement</a>	*
10.24#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Performance Based Stock Appreciation Right Award Agreement</a>	(j)
10.25#	<a href="#">Form of Herbalife Ltd. 2014 Stock Incentive Plan Restricted Cash Unit Award Agreement</a>	(j)
10.26	<a href="#">Credit Agreement, dated as of August 16, 2018, among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the several banks and other financial institutions or entities from time to time party thereto as lenders, Jefferies Finance LLC, as administrative agent for the Term Loan B Lenders and collateral agent, and Coöperatieve Rabobank U.A., New York Branch, as an Issuing Bank and as administrative agent for the Term Loan A Lenders and the Revolving Credit Lenders</a>	(m)
10.27#	<a href="#">Letter Agreement, dated July 11, 2019, by and between Michael O. Johnson and Herbalife International of America, Inc.</a>	(o)

10.28#	<a href="#">Employment Agreement, dated as of October 23, 2019, by and among Dr. John Agwunobi, Herbalife International of America, Inc., and Herbalife Nutrition Ltd.</a>	(p)
10.29#	<a href="#">Employment Agreement, dated as of October 23, 2019, by and among John G. DeSimone, Herbalife International of America, Inc., and Herbalife Nutrition Ltd.</a>	(p)
10.30	<a href="#">First Amendment to Credit Agreement, dated as of December 12, 2019, by and among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the Company's subsidiaries party thereto as subsidiary guarantors, the several banks and other financial institutions or entities party thereto as lenders and Jefferies Finance LLC, as administrative agent for the Term Loan B Lenders and collateral agent</a>	(q)
10.31	<a href="#">Second Amendment to Credit Agreement, dated as of March 19, 2020, by and among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the Company's subsidiaries party thereto as subsidiary guarantors, the several banks and other financial institutions or entities party thereto as lenders and Coöperatieve Rabobank U.A., New York Branch as administrative agent for the Term Loan A Lenders and Revolving Credit Lenders</a>	(s)
10.32	<a href="#">Deferred Prosecution Agreement between Herbalife Nutrition Ltd. and the United States Department of Justice</a>	(v)
10.33	<a href="#">Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order</a>	(v)
10.34	<a href="#">Third Amendment to Credit Agreement, dated as of February 10, 2021, by and among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the Company's subsidiaries party thereto as subsidiary guarantors, the several banks and other financial institutions or entities party thereto as lenders and Jefferies Finance LLC, as administrative agent for the Term Loan B Lenders and collateral agent</a>	(w)
10.35	<a href="#">Fourth Amendment to Credit Agreement, dated as of July 30, 2021, by and among HLF Financing SaRL, LLC, Herbalife Nutrition Ltd., Herbalife International Luxembourg S.à R.L., Herbalife International, Inc., the Company's subsidiaries party thereto as subsidiary guarantors, the several banks and other financial institutions or entities party thereto as lenders and Coöperatieve Rabobank U.A., New York Branch as administrative agent for the Term Loan A Lenders and Revolving Credit Lenders and Sustainability Coordinator</a>	(z)
10.36#	<a href="#">Retention Agreement, effective as of April 6, 2020, by and between Mark Schissel and the Company</a>	*
31.1	<a href="#">Rule 13a-14(a) Certification of Chief Executive Officer</a>	*
31.2	<a href="#">Rule 13a-14(a) Certification of Chief Financial Officer</a>	*
32.1	<a href="#">Section 1350 Certification of Chief Executive Officer</a>	**
32.2	<a href="#">Section 1350 Certification of Chief Financial Officer</a>	**
101.INS	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	*
101.SCH	Inline XBRL Taxonomy Extension Schema Document	*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	*
104	Cover Page Interactive Data File – The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 is formatted in Inline XBRL (included as Exhibit 101)	*

\* Filed herewith.

\*\* Furnished herewith.

# Management contract or compensatory plan or arrangement.

(a) Previously filed on October 1, 2004 as an Exhibit to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(b) Previously filed on December 2, 2004 as an Exhibit to Amendment No. 4 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(c) Previously filed on December 14, 2004 as an Exhibit to Amendment No. 5 to the Company's registration statement on Form S-1 (File No. 333-119485) and is incorporated herein by reference.

(d) Previously filed on May 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and is incorporated herein by reference.

(e) Previously filed on August 5, 2015 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and is incorporated herein by reference.

(f) Previously filed on May 5, 2016 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and is incorporated herein by reference.

- (g) Previously filed on July 15, 2016 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (h) Previously filed on February 23, 2017 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and is incorporated herein by reference.
- (i) Previously filed on August 1, 2017 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 and is incorporated herein by reference.
- (j) Previously filed on February 22, 2018 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and is incorporated herein by reference.
- (k) Previously filed on March 29, 2018 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (l) Previously filed on May 3, 2018 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and is incorporated herein by reference.
- (m) Previously filed on August 22, 2018 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (n) Previously filed on February 19, 2019 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and is incorporated herein by reference.
- (o) Previously filed on August 1, 2019 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and is incorporated herein by reference.
- (p) Previously filed on October 29, 2019 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and is incorporated herein by reference.
- (q) Previously filed on December 12, 2019 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (r) Previously filed on February 18, 2020 as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.
- (s) Previously filed on March 19, 2020 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (t) Previously filed on May 7, 2020 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and is incorporated herein by reference.
- (u) Previously filed on May 29, 2020 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (v) Previously filed on November 5, 2020 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 and is incorporated herein by reference.
- (w) Previously filed on February 11, 2021 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (x) Previously filed on May 4, 2021 as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 and is incorporated herein by reference.
- (y) Previously filed on May 20, 2021 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.
- (z) Previously filed on July 30, 2021 as an Exhibit to the Company's Current Report on Form 8-K and is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HERBALIFE NUTRITION LTD.**

By: /s/ ALEXANDER AMEZQUITA  
Alexander Amezquita  
*Chief Financial Officer*

Dated: November 2, 2021





**HERBALIFE LTD.  
2014 STOCK INCENTIVE PLAN  
STOCK UNIT AWARD AGREEMENT**

**U.S. PARTICIPANTS**

**(Performance-Vesting)**

This Stock Unit Award Agreement (this "Agreement") is dated as of \_\_\_\_\_ (the "Grant Date"), and is between Herbalife Nutrition Ltd. (formerly Herbalife Ltd., and referred to herein as the "Company") and \_\_\_\_\_ ("Participant").

WHEREAS, the Company, by action of the Board and approval of its shareholders, established the Herbalife Ltd. 2014 Stock Incentive Plan (as amended to date and as may be amended from time to time, the "Plan");

WHEREAS, Participant is employed by the Company or one or more of its Subsidiaries and the Company desires to encourage Participant to own Common Stock for the purposes stated in Section 1 of the Plan; and

WHEREAS, Participant and the Company have entered into this Agreement to govern the terms of the Stock Unit Award (as defined below) granted to Participant by the Company.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

1. Grant.

(a) The Company hereby grants to Participant a target Award of \_\_\_\_\_ performance-vesting Stock Units (the "Award") in accordance with Section 10 of the Plan and subject to the conditions set forth in this Agreement and the Plan. Each Stock Unit represents the right to receive one share of Common Stock (as adjusted from time to time pursuant to Section 15 of the Plan) subject to the fulfillment of the vesting and other conditions set forth in this Agreement and the Plan. By accepting the Award, Participant irrevocably agrees on behalf of Participant and Participant's successors and permitted assigns to all of the terms and conditions of the Award as set forth in or pursuant to this Agreement and the Plan.

(b) Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

2. Vesting.

(a) Participant's Stock Units and rights in and to the Common Stock subject to the Stock Units shall not be vested as of the Grant Date and shall be forfeitable unless and until otherwise vested pursuant to the terms of this Agreement. The Participant shall be eligible to earn up to 200% of the Award on \_\_\_\_\_ (such date, the "Vesting Date"), subject to satisfaction of the following conditions:

(i) The Company's achievement of the performance targets set by the Committee (please see Exhibit A attached hereto) (the "Performance Targets"). The percentage of the Award that will become vested (subject to the service condition set forth immediately below) shall be determined in accordance with Exhibit A attached hereto. The Committee will determine and certify the results of the level of achievement of the Performance Targets and the associated number of Stock Units that shall vest.

(ii) The Participant's continued employment with the Company and/or one of its Subsidiaries through the Vesting Date.

Stock Units awarded hereunder that have vested and are no longer subject to forfeiture are referred to herein as "Vested Units." Stock Units awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as "Unvested Units."

(b) Section 15 of the Plan shall govern the treatment of the Award upon a Change in Control.

### 3. Settlement of Vested Units.

(a) Each Vested Unit will be settled by the delivery of one share of Common Stock (subject to adjustment under Section 15 of the Plan) to Participant or, in the event of Participant's death, to Participant's estate, heir or beneficiary, no later than 30 days following the date that the Committee certifies the achievement of the Performance Targets and the resulting number of Vested Units (and in no event later than March 15 of the calendar year following the calendar year in which the Vesting Date occurs); provided that Participant has satisfied all of the Tax Withholding Obligations (as defined in Paragraph 7), and that Participant has completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Common Stock.

(b) The issuance of the Common Stock hereunder may be effected by the issuance of a stock certificate, recording shares on the stock records of the Company or by crediting shares in an account established on Participant's behalf with a brokerage firm or other custodian, in each case as determined by the Company. Fractional shares will not be issued pursuant to the Award.

(c) Notwithstanding the above, (i) for administrative or other reasons, the Company may from time to time temporarily suspend the issuance of Common Stock in respect of Vested Units, (ii) the Company shall not be obligated to deliver any Common Stock during any period when the Company determines that the delivery of Common Stock hereunder would violate any federal, state or other applicable laws, (iii) the Company may issue Common Stock hereunder subject to any restrictive legends that, as determined by the Company's counsel, are necessary to comply with securities or other regulatory requirements and (iv) the date on which Common Stock are issued hereunder may include a delay in order to provide the Company such time as it determines appropriate to address tax withholding and other administrative matters.

4. Shareholder Rights. Prior to any issuance of Common Stock in settlement of the Award, no Common Stock will be reserved or earmarked for Participant or Participant's account nor shall Participant have any of the rights of a shareholder (including, without limitation, any voting rights), except as set forth in Paragraph 5, with respect to either the Stock Units granted hereunder or the Common Stock underlying the Stock Units, unless and until such Common Stock are actually delivered to Participant hereunder.

5. Dividend Equivalent Rights. From and after the Grant Date and unless and until the Award is forfeited or otherwise transferred back to the Company, Participant will be credited with additional Stock Units having a value equal to dividends declared by the Company, if any, with record dates that occur prior to the settlement of the Award as if the Common Stock underlying the Award had been issued and outstanding, based on the Fair Market Value of a share of Common Stock on the applicable dividend payment date. Any such additional Stock Units shall be considered part of the Award and shall also be credited with additional Stock Units as dividends, if any, are declared, and shall be subject to the same restrictions and conditions as the Stock Units subject to the Award with respect to which they were credited (including, but not limited to, the forfeiture provisions set forth in Paragraph 6). Any fractional Stock Units credited with respect to any dividend declared by the Company will be paid to the Participant in cash without interest at such time as the Award is settled. Notwithstanding the foregoing, no such additional Stock Units will be credited with respect to any dividend declared by the Company in connection with which the Award is adjusted pursuant to Section 15 of the Plan.

6. Effect of Termination of Employment. Except as provided in the Plan, upon a termination of Participant's employment with the Company and/or its Subsidiaries for any reason on or prior to the Vesting Date, the Unvested Units shall be forfeited by Participant and cancelled and surrendered to the Company without payment of any consideration to Participant.

7. Withholding Taxes.

(a) Participant is liable and responsible for all taxes owed in connection with the Award, regardless of any action the Company may take with respect to any tax withholding obligations that arise in connection with the Award, and Participant acknowledges and agrees that all taxes owed in connection with the Award may exceed the amount actually withheld by the Company, if any. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award or the subsequent sale of Common Stock issuable pursuant to the Award or the receipt of any dividends or dividend equivalent rights. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate Participant's tax liability or achieve a particular tax result.

(b) Prior to any event in connection with the Award (e.g., vesting or settlement in respect of the Award) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any social tax obligation (the "Tax Withholding Obligation"), Participant is required to arrange for the satisfaction of the amount of such Tax Withholding Obligation in a manner acceptable to the Company. Notwithstanding the foregoing, any Tax Withholding Obligations will be satisfied by the Company withholding a number of shares of Common Stock that would otherwise be issued under the Award that the Company determines has a Fair Market Value sufficient to meet the Tax Withholding Obligations, unless Participant otherwise satisfies such Tax Withholding Obligations in a manner satisfactory to the Company.

8. Securities Law Compliance. Participant understands that the Company is under no obligation to register for resale the Common Stock issued upon settlement of the Award. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by Participant or other subsequent transfers by Participant of any Common Stock issued as a result of or under the Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Award and/or the Common Stock underlying the

Award and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Common Stock must also comply with other applicable laws and regulations governing the sale of such shares.

9. Transfer Restrictions. The Award (whether or not vested) may not be assigned or transferred otherwise than by will or by the laws of descent and distribution. Neither the Award nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Award or any right hereunder, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Award by notice to Participant, and the Award shall thereupon become null and void.

10. Committee Authority. Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under this Agreement or the Plan, and any controversy that may arise under this Agreement or the Plan shall be determined by the Committee (including any subcommittee or other person(s) to whom the Committee has delegated its authority) in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

11. Plan Controls. The terms of this Agreement are governed by the terms of the Plan, as it exists on the Grant Date and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise herein. As used herein, the term "Section" generally refers to provisions within the Plan, and the term "Paragraph" refers to provisions of this Agreement.

12. No Right to Continued Employment. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon Participant any right to continued employment with the Company or any of its Subsidiaries.

13. Data Privacy. Participant understands that the Company and one or more of its Subsidiaries or affiliates may collect, maintain, process and disclose certain personal information about Participant for the exclusive purpose of implementing, administering and managing the Plan. Such information may include, but is not limited to: Participant's name, home address, email address, telephone number, date of birth, social insurance number, compensation, job title, any shares of Common Stock or directorships held in the Company, details of all equity awards or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor. Participant further understands that such personal information will be transferred to one or more third parties selected by the Company to assist the Company with the implementation, administration and management of the Plan. Participant understands that such data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan, including to maintain records regarding participation.

14. Undertaking. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company reasonably may request in order to carry out the intent or accomplish the purposes of this Agreement and the Plan.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Award made under the Plan by electronic means or to request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company, and

such consent shall remain in effect throughout Participant's term of service with the Company and thereafter until withdrawn by Participant. If the attempted electronic delivery of such documents fails, Participant will be provided with a paper copy of the documents. Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Participant agrees that the foregoing online or electronic participation in the Plan shall have the same force and effect as documentation executed in hardcopy written form. Finally, Participant understands that he or she is not required to consent to electronic delivery of documents.

16. Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

17. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

18. Insider Trading Restrictions. Participant acknowledges that Participant is subject to insider trading laws and regulations which may affect his or her ability to accept, acquire, sell or otherwise dispose of Common Stock or rights to Common Stock (e.g., Stock Units) during such times Participant is considered to have "material nonpublic information" regarding the Company as defined in U.S. federal and state securities laws and regulations. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's Insider Trading Compliance Policy. Participant acknowledges that it is his or her responsibility to comply with all applicable insider trading laws and regulations and to review the Company's Insider Trading Compliance Policy and comply with the restrictions therein. Participant is advised to review the Company's Insider Trading Policy and speak to his or her personal advisor on this matter.

19. No Waiver. No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right hereunder constitute a continuing waiver of the same or a waiver of any other right hereunder.

20. Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

*[signature page follows]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE NUTRITION LTD.

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**HERBALIFE LTD.  
2014 STOCK INCENTIVE PLAN  
STOCK UNIT AWARD AGREEMENT  
U.S. PARTICIPANTS**

**(Time-Vesting)**

This Stock Unit Award Agreement (this "Agreement") is dated as of \_\_\_\_\_ (the "Grant Date"), and is between Herbalife Nutrition Ltd. (formerly Herbalife Ltd., and referred to herein as the "Company") and \_\_\_\_\_ ("Participant").

WHEREAS, the Company, by action of the Board and approval of its shareholders, established the Herbalife Ltd. 2014 Stock Incentive Plan (as amended to date and as may be amended from time to time, the "Plan");

WHEREAS, Participant is employed by the Company or one or more of its Subsidiaries and the Company desires to encourage Participant to own Common Stock for the purposes stated in Section 1 of the Plan; and

WHEREAS, Participant and the Company have entered into this Agreement to govern the terms of the Stock Unit Award (as defined below) granted to Participant by the Company.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

1. Grant.

(a)The Company hereby grants to Participant an Award of \_\_\_\_\_ time-vesting Stock Units (the "Award") in accordance with Section 10 of the Plan and subject to the conditions set forth in this Agreement and the Plan. Each Stock Unit represents the right to receive one share of Common Stock (as adjusted from time to time pursuant to Section 15 of the Plan) subject to the fulfillment of the vesting and other conditions set forth in this Agreement and the Plan. By accepting the Award, Participant irrevocably agrees on behalf of Participant and Participant's successors and permitted assigns to all of the terms and conditions of the Award as set forth in or pursuant to this Agreement and the Plan.

(b)Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

2. Vesting.

(a)Participant's Stock Units and rights in and to the Common Stock subject to the Stock Units shall not be vested as of the Grant Date and shall be forfeitable unless and until otherwise vested pursuant to the terms of this Agreement. Subject to Participant's continued

employment with the Company and/or one of its Subsidiaries, the Award shall become vested in accordance with the following schedule: (i) 20% of the Award shall vest on the first anniversary of the Grant Date, (ii) 20% of the Award shall vest on the second anniversary of the Grant Date, and (iii) the remaining 60% of the Award shall vest on the third anniversary of the Grant Date (each such date, a “Vesting Date”). Stock Units awarded hereunder that have vested and are no longer subject to forfeiture are referred to herein as “Vested Units.” Stock Units awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as “Unvested Units.”

(b)Section 15 of the Plan shall govern the treatment of the Award upon a Change in Control.

### 3. Settlement of Vested Units.

(a)Each Vested Unit will be settled by the delivery of one share of Common Stock (subject to adjustment under Section 15 of the Plan) to Participant or, in the event of Participant’s death, to Participant’s estate, heir or beneficiary, following the applicable Vesting Date; provided that Participant has satisfied all of the Tax Withholding Obligations (as defined in Paragraph 7), and that Participant has completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Common Stock.

(b)The issuance of the Common Stock hereunder may be effected by the issuance of a stock certificate, recording shares on the stock records of the Company or by crediting shares in an account established on Participant’s behalf with a brokerage firm or other custodian, in each case as determined by the Company. Fractional shares will not be issued pursuant to the Award.

(c)Notwithstanding the above, (i) for administrative or other reasons, the Company may from time to time temporarily suspend the issuance of Common Stock in respect of Vested Units, (ii) the Company shall not be obligated to deliver any Common Stock during any period when the Company determines that the delivery of Common Stock hereunder would violate any federal, state or other applicable laws, (iii) the Company may issue Common Stock hereunder subject to any restrictive legends that, as determined by the Company’s counsel, are necessary to comply with securities or other regulatory requirements and (iv) the date on which Common Stock are issued hereunder may include a delay in order to provide the Company such time as it determines appropriate to address tax withholding and other administrative matters.

4. Shareholder Rights. Prior to any issuance of Common Stock in settlement of the Award, no Common Stock will be reserved or earmarked for Participant or Participant’s account nor shall Participant have any of the rights of a shareholder (including, without limitation, any voting rights), except as set forth in Paragraph 5, with respect to either the Stock Units granted hereunder or the Common Stock underlying the Stock Units, unless and until such Common Stock are actually delivered to Participant hereunder.

5. Dividend Equivalent Rights. From and after the Grant Date and unless and until the Award is forfeited or otherwise transferred back to the Company, Participant will be credited with

additional Stock Units having a value equal to dividends declared by the Company, if any, with record dates that occur prior to the settlement of the Award as if the Common Stock underlying the Award had been issued and outstanding, based on the Fair Market Value of a share of Common Stock on the applicable dividend payment date. Any such additional Stock Units shall be considered part of the Award and shall also be credited with additional Stock Units as dividends, if any, are declared, and shall be subject to the same restrictions and conditions as the Stock Units subject to the Award with respect to which they were credited (including, but not limited to, the forfeiture provisions set forth in Paragraph 6). Any fractional Stock Units credited with respect to any dividend declared by the Company will be paid to the Participant in cash without interest at the settlement following each applicable Vesting Date. Notwithstanding the foregoing, no such additional Stock Units will be credited with respect to any dividend declared by the Company in connection with which the Award is adjusted pursuant to Section 15 of the Plan.

6. Effect of Termination of Employment. Except as provided in the Plan, upon a termination of Participant's employment with the Company and/or its Subsidiaries for any reason on or prior to any Vesting Date, the Unvested Units shall be forfeited by Participant and cancelled and surrendered to the Company without payment of any consideration to Participant.

7. Withholding Taxes.

(a) Participant is liable and responsible for all taxes owed in connection with the Award, regardless of any action the Company may take with respect to any tax withholding obligations that arise in connection with the Award, and Participant acknowledges and agrees that all taxes owed in connection with the Award may exceed the amount actually withheld by the Company, if any. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award or the subsequent sale of Common Stock issuable pursuant to the Award or the receipt of any dividends or dividend equivalent rights. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate Participant's tax liability or achieve a particular tax result.

(b) Prior to any event in connection with the Award (e.g., vesting or settlement in respect of the Award) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any social tax obligation (the "Tax Withholding Obligation"), Participant is required to arrange for the satisfaction of the amount of such Tax Withholding Obligation in a manner acceptable to the Company. Notwithstanding the foregoing, any Tax Withholding Obligations will be satisfied by the Company withholding a number of shares of Common Stock that would otherwise be issued under the Award that the Company determines has a Fair Market Value sufficient to meet the Tax Withholding Obligations, unless Participant otherwise satisfies such Tax Withholding Obligations in a manner satisfactory to the Company.

8. Securities Law Compliance. Participant understands that the Company is under no obligation to register for resale the Common Stock issued upon settlement of the Award. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by Participant or other subsequent transfers by

Participant of any Common Stock issued as a result of or under the Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Award and/or the Common Stock underlying the Award and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Common Stock must also comply with other applicable laws and regulations governing the sale of such shares.

9. Transfer Restrictions. The Award (whether or not vested) may not be assigned or transferred otherwise than by will or by the laws of descent and distribution. Neither the Award nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Award or any right hereunder, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Award by notice to Participant, and the Award shall thereupon become null and void.

10. Committee Authority. Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under this Agreement or the Plan, and any controversy that may arise under this Agreement or the Plan shall be determined by the Committee (including any subcommittee or other person(s) to whom the Committee has delegated its authority) in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

11. Plan Controls. The terms of this Agreement are governed by the terms of the Plan, as it exists on the Grant Date and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise herein. As used herein, the term "Section" generally refers to provisions within the Plan, and the term "Paragraph" refers to provisions of this Agreement.

12. No Right to Continued Employment. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon Participant any right to continued employment with the Company or any of its Subsidiaries.

13. Data Privacy. Participant understands that the Company and one or more of its Subsidiaries or affiliates may collect, maintain, process and disclose certain personal information about Participant for the exclusive purpose of implementing, administering and managing the Plan. Such information may include, but is not limited to: Participant's name, home address, email address, telephone number, date of birth, social insurance number, compensation, job title, any shares of Common Stock or directorships held in the Company, details of all equity awards or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor. Participant further understands that such personal information will be transferred to one or more third parties selected by the Company to assist the Company with the implementation, administration and management of the Plan. Participant understands that such data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan, including to maintain records regarding participation.

14. Undertaking. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company reasonably may request in order to carry out the intent or accomplish the purposes of this Agreement and the Plan.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Award made under the Plan by electronic means or to request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company, and such consent shall remain in effect throughout Participant's term of service with the Company and thereafter until withdrawn by Participant. If the attempted electronic delivery of such documents fails, Participant will be provided with a paper copy of the documents. Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Participant agrees that the foregoing online or electronic participation in the Plan shall have the same force and effect as documentation executed in hardcopy written form. Finally, Participant understands that he or she is not required to consent to electronic delivery of documents.

16. Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

17. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

18. Insider Trading Restrictions. Participant acknowledges that Participant is subject to insider trading laws and regulations which may affect his or her ability to accept, acquire, sell or otherwise dispose of Common Stock or rights to Common Stock (e.g., Stock Units) during such times Participant is considered to have "material nonpublic information" regarding the Company as defined in U.S. federal and state securities laws and regulations. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's Insider Trading Compliance Policy. Participant acknowledges that it is his or her responsibility to comply with all applicable insider trading laws and regulations and to review the Company's Insider Trading Compliance Policy and comply with the restrictions therein. Participant is advised to review the Company's Insider Trading Policy and speak to his or her personal advisor on this matter.

19. No Waiver. No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right hereunder constitute a continuing waiver of the same or a waiver of any other right hereunder.

20. Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

*[signature page follows]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE NUTRITION LTD.

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**HERBALIFE LTD.  
2014 STOCK INCENTIVE PLAN**

**LEAD DIRECTOR**

**STOCK UNIT AWARD AGREEMENT**

This Lead Director Stock Unit Award Agreement (this "Agreement") is dated as of \_\_\_\_\_ (the "Grant Date"), and is between Herbalife Nutrition Ltd. (formerly Herbalife Ltd., and referred to herein as the "Company") and \_\_\_\_\_ ("Participant").

WHEREAS, the Company, by action of the Board and approval of its shareholders, established the Herbalife Ltd. 2014 Stock Incentive Plan (as amended to date and as may be amended from time to time, the "Plan");

WHEREAS, the Board has determined that it is advisable and in the best interests of the Company and its shareholders to grant awards under the Plan in the form of Stock Units to the Lead Director of the Board in order to attract and retain a qualified Lead Director and align his or her interests with those of the Company's shareholders; and

WHEREAS, Participant and the Company have entered into this Agreement to govern the terms of the Stock Unit Award (as defined below) granted to Participant by the Company.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

**1. Definitions**

Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

**2. Grant**

The Company hereby grants to Participant an Award of \_\_\_\_\_ Stock Units (the "Award") in accordance with Section 10 of the Plan and subject to the conditions set forth in this Agreement and the Plan. Each Stock Unit represents the right to receive one share of Common Stock (as adjusted from time to time pursuant to Section 15 of the Plan) subject to the fulfillment of the vesting and other conditions set forth in this Agreement and the Plan. By accepting the Award, Participant irrevocably agrees on behalf of Participant and Participant's successors and permitted assigns to all of the terms and conditions of the Award as set forth in or pursuant to this Agreement and the Plan.

**3. Vesting**

(a) Participant's Stock Units and rights in and to the Common Stock subject to the Stock Units shall not be vested as of the Grant Date and shall be forfeitable unless and until otherwise vested pursuant to the terms of this Agreement. Subject to Participant's continued service as the Lead Director of the Board, the Award shall become vested with respect to 100% of the Stock Units awarded hereunder on \_\_\_\_\_ ("Vesting Date"). Stock Units awarded

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hereunder that have vested and are no longer subject to forfeiture are referred to herein as “Vested Units.” Stock Units awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as “Unvested Units.” Except as provided in Paragraphs 3(b) or (c), upon the cessation of Participant’s service as the Lead Director of the Board for any reason, the Unvested Units shall be forfeited by Participant and cancelled and surrendered to the Company without payment of any consideration to Participant.

(b)Notwithstanding anything herein or in the Plan to the contrary, upon the termination of Participant’s service as the Lead Director of the Board by reason of Participant’s death or disability (as such term is defined in Section 22(e) of the Code), all Unvested Units shall vest as of the date of such termination of service.

(c)Notwithstanding anything herein or in the Plan to the contrary, upon the occurrence of a Change in Control, the vesting of the Award shall be accelerated such that 100% of the aggregate number of Stock Units subject to the Award (as set forth in Paragraph 2 above) shall be or become Vested Units as of immediately prior to the consummation of the Change in Control.

#### **4. Settlement of Vested Units**

(a)Each Vested Unit will be settled by the delivery of one share of Common Stock (subject to adjustment under Section 15 of the Plan) to Participant or, in the event of Participant’s death, to Participant’s estate, heir or beneficiary, following the applicable Vesting Date (or vesting date in accordance with Paragraph 3(b) or 3(c) above); provided that Participant has satisfied all of the tax withholding obligations described in Paragraph 6, and that Participant has completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Common Stock. The issuance of the Common Stock hereunder may be effected by the issuance of a stock certificate, recording shares on the stock records of the Company or by crediting shares in an account established on Participant’s behalf with a brokerage firm or other custodian, in each case as determined by the Company. Fractional shares will not be issued pursuant to the Award.

(b)Notwithstanding the above, (i) for administrative or other reasons, the Company may from time to time temporarily suspend the issuance of Common Stock in respect of Vested Units, (ii) the Company shall not be obligated to deliver any Common Stock during any period when the Company determines that the delivery of Common Stock hereunder would violate any federal, state or other applicable laws, (iii) the Company may issue Common Stock hereunder subject to any restrictive legends that, as determined by the Company’s counsel, are necessary to comply with securities or other regulatory requirements and (iv) the date on which Common Stock are issued hereunder may include a delay in order to provide the Company such time as it determines appropriate to address administrative matters.

#### **5. Status of Participant**

Prior to any issuance of Common Stock in settlement of the Award, no Common Stock will be reserved or earmarked for Participant or Participant’s account nor shall Participant have any of the rights of a shareholder (including, without limitation, any voting or dividend rights) with respect to either the Stock Units granted hereunder or the Common Stock underlying the Stock Units, unless and until such Common Stock are actually delivered to Participant hereunder.

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## **6. Taxes**

Participant is liable and responsible for all taxes owed in connection with the Award, regardless of any action the Company may take with respect to any tax withholding obligations that arise in connection with the Award. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award or the subsequent sale of Common Stock issuable pursuant to the Award. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate Participant's tax liability or achieve a particular tax result. Prior to any event in connection with the Award (e.g., vesting or settlement in respect of the Award) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any social tax obligation, Participant is required to arrange for the satisfaction of the amount of such tax withholding obligation in a manner acceptable to the Company.

## **7. Plan Controls**

The terms of this Agreement are governed by the terms of the Plan, as it exists on the Grant Date and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise in this Agreement. The term "Section" generally refers to provisions within the Plan; provided, however, the term "Paragraph" refers to provisions of this Agreement.

## **8. Limitation on Rights; No Right to Future Grants; Extraordinary Item**

By entering into this Agreement and accepting the Award, Participant acknowledges that: (a) Participant's participation in the Plan is voluntary and (b) the grant of the Award will not be interpreted to form an employment relationship with the Company or any Subsidiary. The Company shall be under no obligation whatsoever to advise Participant of the existence, maturity or termination of any of Participant's rights hereunder and Participant shall be responsible for familiarizing himself or herself with all matters contained herein and in the Plan which may affect any of Participant's rights or privileges hereunder.

## **9. Committee Authority**

Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under the Plan or this Agreement, and any controversy that may arise under the Plan or this Agreement shall be determined by the Committee (including any subcommittee or other person(s) to whom the Committee has delegated its authority) in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

## **10. Transfer Restrictions**

The Award (whether or not vested) may not be assigned or transferred otherwise than by will or by the laws of descent and distribution. Neither the Award nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Award or any right hereunder, or in the event of the levy or any attachment, execution or similar process upon the rights or

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interests hereby conferred, the Company may terminate the Award by notice to Participant, and the Award shall thereupon become null and void.

## 11. Data Privacy

Participant understands that the Company and one or more of its Subsidiaries or affiliates may collect, maintain, process and disclose certain personal information about Participant for the exclusive purpose of implementing, administering and, managing the Plan. Such information may include, but is not limited to: Participant's name, home address, email address, telephone number, date of birth, social insurance number, compensation, job title, any shares of Common Stock or directorships held in the Company, details of all equity awards or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor. Participant further understands that such personal information will be transferred to one or more third parties selected by the Company to assist the Company with the implementation, administration and management of the Plan. Participant understands that such data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan, including to maintain records regarding participation.

## 12. General Provisions

(a)No Waiver. No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right hereunder constitute a continuing waiver of the same or a waiver of any other right hereunder.

(b)Undertaking. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company reasonably may request in order to carry out the intent or accomplish the purposes of this Agreement and the Plan.

(c)Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

(d)Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

(e)Securities Law Compliance. Participant understands that the Company is under no obligation to register for resale the Common Stock issued upon settlement of the Award. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by Participant or other subsequent transfers by Participant of any Common Stock issued as a result of or under the Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Award and/or the Common Stock underlying the Award and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Common

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Stock must also comply with other applicable laws and regulations governing the sale of such shares.

(f)Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Award made under the Plan by electronic means or to request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company, and such consent shall remain in effect throughout Participant's term of service with the Company and thereafter until withdrawn by Participant. If the attempted electronic delivery of such documents fails, Participant will be provided with a paper copy of the documents. Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Participant agrees that the foregoing online or electronic participation in the Plan shall have the same force and effect as documentation executed in hardcopy written form. Finally, Participant understands that he or she is not required to consent to electronic delivery of documents.

(g)Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

(h)Insider Trading Restrictions. Participant acknowledges that Participant is subject to insider trading laws and regulations which may affect his or her ability to accept, acquire, sell or otherwise dispose of Common Stock or rights to Common Stock (e.g., Stock Units) during such times Participant is considered to have "material nonpublic information" regarding the Company as defined in U.S. federal and state securities laws and regulations. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's Insider Trading Compliance Policy. Participant acknowledges that it is his or her responsibility to comply with all applicable insider trading laws and regulations and to review the Company's Insider Trading Compliance Policy and comply with the restrictions therein. Participant is advised to review the Company's Insider Trading Policy and speak to his or her personal advisor on this matter.

*[signature page follows]*

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE NUTRITION LTD.

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**HERBALIFE LTD.  
2014 STOCK INCENTIVE PLAN**

**BOARD OF DIRECTORS**

**STOCK UNIT AWARD AGREEMENT**

This Board of Directors Stock Unit Award Agreement (this "Agreement") is dated as of \_\_\_\_\_ (the "Grant Date"), and is between Herbalife Nutrition Ltd. (formerly Herbalife Ltd., and referred to herein as the "Company") and \_\_\_\_\_ ("Participant").

WHEREAS, the Company, by action of the Board and approval of its shareholders, established the Herbalife Ltd. 2014 Stock Incentive Plan (as amended to date and as may be amended from time to time, the "Plan");

WHEREAS, the Board has determined that it is advisable and in the best interests of the Company and its shareholders to grant awards under the Plan in the form of Stock Units to Participant to encourage Participant to own Common Stock for the purposes stated in Section 1 of the Plan; and

WHEREAS, Participant and the Company have entered into this Agreement to govern the terms of the Stock Unit Award (as defined below) granted to Participant by the Company.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

**1. Definitions**

Except as otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

**2. Grant**

The Company hereby grants to Participant an Award of \_\_\_\_\_ Stock Units (the "Award") in accordance with Section 10 of the Plan and subject to the conditions set forth in this Agreement and the Plan. Each Stock Unit represents the right to receive one share of Common Stock (as adjusted from time to time pursuant to Section 15 of the Plan) subject to the fulfillment of the vesting and other conditions set forth in this Agreement and the Plan. By accepting the Award, Participant irrevocably agrees on behalf of Participant and Participant's successors and permitted assigns to all of the terms and conditions of the Award as set forth in or pursuant to this Agreement and the Plan.

**3. Vesting**

(a) Participant's Stock Units and rights in and to the Common Stock subject to the Stock Units shall not be vested as of the Grant Date and shall be forfeitable unless and until otherwise vested pursuant to the terms of this Agreement. Subject to Participant's continued service as a member of the Board, the Award shall become vested with respect to 100% of the Stock Units awarded hereunder on \_\_\_\_\_ ("Vesting Date"). Stock Units awarded hereunder

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that have vested and are no longer subject to forfeiture are referred to herein as “Vested Units.” Stock Units awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as “Unvested Units.” Except as provided in Paragraphs 3(b) or (c), upon the cessation of Participant’s service as a member of the Board for any reason, the Unvested Units shall be forfeited by Participant and cancelled and surrendered to the Company without payment of any consideration to Participant.

(b)Notwithstanding anything herein or in the Plan to the contrary, upon the termination of Participant’s service as a member of the Board by reason of Participant’s death or disability (as such term if defined in Section 22(e) of the Code), all Unvested Units shall vest as of the date of such termination of service.

(c)Notwithstanding anything herein or in the Plan to the contrary, upon the occurrence of a Change in Control, the vesting of the Award shall be accelerated such that 100% of the aggregate number of Stock Units subject to the Award (as set forth in Paragraph 2 above) shall be or become Vested Units as of immediately prior to the consummation of the Change in Control.

#### **4. Settlement of Vested Units**

(a)Each Vested Unit will be settled by the delivery of one share of Common Stock (subject to adjustment under Section 15 of the Plan) to Participant or, in the event of Participant’s death, to Participant’s estate, heir or beneficiary, following the applicable Vesting Date (or vesting date in accordance with Paragraph 3(b) or 3(c) above); provided that Participant has satisfied all of the tax withholding obligations described in Paragraph 6, and that Participant has completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Common Stock. The issuance of the Common Stock hereunder may be effected by the issuance of a stock certificate, recording shares on the stock records of the Company or by crediting shares in an account established on Participant’s behalf with a brokerage firm or other custodian, in each case as determined by the Company. Fractional shares will not be issued pursuant to the Award.

(b)Notwithstanding the above, (i) for administrative or other reasons, the Company may from time to time temporarily suspend the issuance of Common Stock in respect of Vested Units, (ii) the Company shall not be obligated to deliver any Common Stock during any period when the Company determines that the delivery of Common Stock hereunder would violate any federal, state or other applicable laws, (iii) the Company may issue Common Stock hereunder subject to any restrictive legends that, as determined by the Company’s counsel, are necessary to comply with securities or other regulatory requirements and (iv) the date on which Common Stock are issued hereunder may include a delay in order to provide the Company such time as it determines appropriate to address administrative matters.

#### **5. Status of Participant**

Prior to any issuance of Common Stock in settlement of the Award, no Common Stock will be reserved or earmarked for Participant or Participant’s account nor shall Participant have any of the rights of a shareholder (including, without limitation, any voting or dividend rights) with respect to either the Stock Units granted hereunder or the Common Stock underlying the Stock Units, unless and until such Common Stock are actually delivered to Participant hereunder.

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## **6. Taxes**

Participant is liable and responsible for all taxes owed in connection with the Award, regardless of any action the Company may take with respect to any tax withholding obligations that arise in connection with the Award. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with any aspect of the Award, including, but not limited to, the grant, vesting or settlement of the Award or the subsequent sale of Common Stock issuable pursuant to the Award. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate Participant's tax liability or achieve a particular tax result. Prior to any event in connection with the Award (e.g., vesting or settlement in respect of the Award) that the Company determines may result in any domestic or foreign tax withholding obligation, whether national, federal, state or local, including any social tax obligation, Participant is required to arrange for the satisfaction of the amount of such tax withholding obligation in a manner acceptable to the Company.

## **7. Plan Controls**

The terms of this Agreement are governed by the terms of the Plan, as it exists on the Grant Date and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise in this Agreement. The term "Section" generally refers to provisions within the Plan; provided, however, the term "Paragraph" refers to provisions of this Agreement.

## **8. Limitation on Rights; No Right to Future Grants; Extraordinary Item**

By entering into this Agreement and accepting the Award, Participant acknowledges that: (a) Participant's participation in the Plan is voluntary and (b) the grant of the Award will not be interpreted to form an employment relationship with the Company or any Subsidiary. The Company shall be under no obligation whatsoever to advise Participant of the existence, maturity or termination of any of Participant's rights hereunder and Participant shall be responsible for familiarizing himself or herself with all matters contained herein and in the Plan which may affect any of Participant's rights or privileges hereunder.

## **9. Committee Authority**

Any question concerning the interpretation of this Agreement or the Plan, any adjustments required to be made under the Plan or this Agreement, and any controversy that may arise under the Plan or this Agreement shall be determined by the Committee (including any subcommittee or other person(s) to whom the Committee has delegated its authority) in its sole and absolute discretion. All decisions by the Committee shall be final and binding.

## **10. Transfer Restrictions**

The Award (whether or not vested) may not be assigned or transferred otherwise than by will or by the laws of descent and distribution. Neither the Award nor any right hereunder shall be subject to attachment, execution or other similar process. In the event of any attempt by Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Award or any right hereunder, or in the event of the levy or any attachment, execution or similar process upon the rights or

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interests hereby conferred, the Company may terminate the Award by notice to Participant, and the Award shall thereupon become null and void.

## 11. Data Privacy

Participant understands that the Company and one or more of its Subsidiaries or affiliates may collect, maintain, process and disclose certain personal information about Participant for the exclusive purpose of implementing, administering and, managing the Plan. Such information may include, but is not limited to: Participant's name, home address, email address, telephone number, date of birth, social insurance number, compensation, job title, any shares of Common Stock or directorships held in the Company, details of all equity awards or any other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor. Participant further understands that such personal information will be transferred to one or more third parties selected by the Company to assist the Company with the implementation, administration and management of the Plan. Participant understands that such data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan, including to maintain records regarding participation.

## 12. General Provisions

(a)No Waiver. No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right hereunder constitute a continuing waiver of the same or a waiver of any other right hereunder.

(b)Undertaking. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company reasonably may request in order to carry out the intent or accomplish the purposes of this Agreement and the Plan.

(c)Entire Agreement. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature.

(d)Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person will have become a party to this Agreement and agreed in writing to join herein and be bound by the terms and conditions hereof.

(e)Securities Law Compliance. Participant understands that the Company is under no obligation to register for resale the Common Stock issued upon settlement of the Award. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by Participant or other subsequent transfers by Participant of any Common Stock issued as a result of or under the Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the Award and/or the Common Stock underlying the Award and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Common

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Stock must also comply with other applicable laws and regulations governing the sale of such shares.

(f)Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Award made under the Plan by electronic means or to request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company, and such consent shall remain in effect throughout Participant's term of service with the Company and thereafter until withdrawn by Participant. If the attempted electronic delivery of such documents fails, Participant will be provided with a paper copy of the documents. Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Participant agrees that the foregoing online or electronic participation in the Plan shall have the same force and effect as documentation executed in hardcopy written form. Finally, Participant understands that he or she is not required to consent to electronic delivery of documents.

(g)Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

(h)Insider Trading Restrictions. Participant acknowledges that Participant is subject to insider trading laws and regulations which may affect his or her ability to accept, acquire, sell or otherwise dispose of Common Stock or rights to Common Stock (e.g., Stock Units) during such times Participant is considered to have "material nonpublic information" regarding the Company as defined in U.S. federal and state securities laws and regulations. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under the Company's Insider Trading Compliance Policy. Participant acknowledges that it is his or her responsibility to comply with all applicable insider trading laws and regulations and to review the Company's Insider Trading Compliance Policy and comply with the restrictions therein. Participant is advised to review the Company's Insider Trading Policy and speak to his or her personal advisor on this matter.

*[signature page follows]*

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

HERBALIFE NUTRITION LTD.

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[Herbalife Letterhead]

Mark Schissel

via marks@herbalife.com

Re: Retention Agreement

Dear Mark:

In recognition of your continued service with Herbalife Nutrition Ltd. and/or its affiliates and subsidiaries ("Herbalife Nutrition") from April 6, 2020 through April 6, 2023 (the "Retention Period"), we offered you, and you accepted, a retention bonus in the amount of \$1,000,000, less all applicable withholdings and deductions required by law (the "Retention Bonus"). If you terminate your employment or if Herbalife Nutrition terminates your employment for Cause before the end of the Retention Period, you will be required to repay the Retention Bonus in full to Herbalife Nutrition within fifteen (15) days of the termination of your employment. As used herein, "Cause" means: (i) willful failure to perform substantially all of your duties, including carrying out or complying with any lawful and reasonable material directive of the Chief Executive Officer of the Company; (ii) engagement in an act of fraud, embezzlement, dishonesty or of any policy or written agreement with the Company or any of its subsidiaries, including the Code of Business Conduct Policy and any employment or non-disclosure agreement; (iii) conviction of or pleas of guilty or *nolo contendere* to a crime that constitutes a felony; or (iv) willful misconduct or gross negligence resulting in material economic harm to the Company, any of which occur, or which first become known to the Company, after the date of this Agreement.

In addition, we offered you, and you accepted, an off-cycle equity grant with a grant value equal to \$1,500,000, which will vest 100% on April 7, 2023 ("Retention RSUs"), in accordance with the Herbalife Ltd. 2014 Stock Incentive Plan Stock Unit Award Agreement.

You will be eligible to receive the Retention RSUs if all of the following eligibility criteria are satisfied:

1. You are actively employed by Herbalife Nutrition on the last day of the Retention Period.
2. You have not given notice of your intent to resign from employment on or before the last day of the Retention Period.
3. Herbalife Nutrition has not given you notice of its intent to terminate your employment for cause on or before the last day of the Retention Period.

**Your employment remains at-will, meaning that you and Herbalife Nutrition may terminate the employment relationship at any time, with or without cause, and with or without notice.**

This letter agreement is intended to comply with, or be exempt from, Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and shall be construed and administered in accordance with Section 409A.

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This letter agreement contains all of the understandings and representations between Herbalife Nutrition and you relating to the Retention Bonus and the Retention RSUs and supersedes all prior and contemporaneous understandings, discussions, agreements, representations, and warranties, both written and oral, with respect to any retention bonus; provided, however, that this letter agreement shall not supersede any other agreements between Herbalife Nutrition and you, and specifically your confidentiality agreement and terms of your employment shall remain in full force and effect. This letter agreement may not be amended or modified unless in writing signed by both the Chief Executive Officer of Herbalife Nutrition and you.

This letter agreement and all related documents, and all matters arising out of or relating to this letter agreement for all purposes shall be governed by and construed in accordance with the laws of the State of California, without giving effect to any conflict of laws principles that would cause the laws of any other jurisdiction to apply. Any legal suit, action, or proceeding arising out of or relating to this letter agreement shall be adjudicated in the appropriate state or federal court in the State of California in each case located in the County of Los Angeles and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action, or proceeding.

If any term of this letter agreement is to any extent invalid, illegal, or incapable of being enforced, such term shall be excluded to the extent of such invalidity, illegality, or unenforceability; all other terms hereof shall remain in full force and effect.

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This letter agreement is made effective as of April 6, 2020.

Very truly yours,  
Herbalife Nutrition Ltd.  
/s/ Everton Harris  
Everton Harris  
Chief Human Resources Officer

Agreed to and accepted by:

/s/ Mark Schissel

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Mark Schissel

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## RULE 13a-14(a) CERTIFICATION

I, Dr. John O. Agwunobi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Nutrition Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DR. JOHN O. AGWUNOBI  
Dr. John O. Agwunobi  
*Chairman of the Board and Chief Executive Officer*

Dated: November 2, 2021

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## RULE 13a-14(a) CERTIFICATION

I, Alexander Amezquita, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Herbalife Nutrition Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ALEXANDER AMEZQUITA  
Alexander Amezquita  
Chief Financial Officer

Dated: November 2, 2021

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**  
**Pursuant to 18 U.S.C. Section 1350**  
**Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Herbalife Nutrition Ltd., or the Company, on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof, or the Report, I, Dr. John O. Agwunobi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DR. JOHN O. AGWUNOBI  
Dr. John O. Agwunobi  
*Chairman of the Board and Chief Executive Officer*

Dated: November 2, 2021

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER**  
**Pursuant to 18 U.S.C. Section 1350**  
**Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Herbalife Nutrition Ltd., or the Company, on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof, or the Report, I, Alexander Amezcuita, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ALEXANDER AMEZQUITA  
Alexander Amezcuita  
*Chief Financial Officer*

Dated: November 2, 2021

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