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WW International, Inc. (WW)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the WW International Third Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to hand the call over to David Helderman, Director of Investor Relations. Please go ahead.

David Helderman

Director, Investor Relations, WW International, Inc.

Thank you, everyone, for joining us today for WW International's third quarter 2024 conference call. This morning, we issued a press release reporting our third quarter 2024 results. The purpose of this call is to provide investors with some further details regarding the company's financial results, as well as to provide a general update on the company's progress. The press release is available on the company's corporate website at corporate.ww.com. Supplemental investor materials are also available on the company's corporate website under events and presentations. Reconciliations of non-GAAP measures discussed on this conference call today to the most directly comparable GAAP financial measures are also available as part of this press release.

Before we begin, let me remind everyone that this call will contain forward-looking statements. Investors should be aware that any forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those discussed here today. These risk factors are explained in detail in the most recently filed Annual Report on Form 10-K as updated by the company's other filings with the Securities and Exchange Commission. Please refer to these filings for a more detailed discussion of forward-looking statements and the risks and uncertainties of such statements. All forward-looking statements are made as of today and except as required by law, the company undertakes no obligation to publicly update or revise any forward-looking statements, whether, as a result of new information, future events or otherwise.

Joining today's call are Tara Comonte, Interim President and Chief Executive Officer; Heather Stark, Chief Financial Officer and Donna Boyer, Chief Product Officer. I will now turn the call over to Tara.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Thanks, David. Thank you for joining us this morning. For those of you who don't know me, I've been a member of the WeightWatchers board since mid-2023 and I'm now serving as Interim President and CEO following Sima Sistani's departure last month. I'm confident I speak for the entire board when I say how grateful we are to Sima for her leadership navigating the business through these times of significant change in our industry, while also laying a strong foundation for our future.

I'm extremely pleased to now be part of this management team as we take on the task of building on that foundation and creating the plans to revert this business back to sustainable growth.

While our results in the third quarter were broadly on track with expectations, it's clear we have significant work ahead to change the trajectory of the business. This is an industry undergoing massive transition and as a result, WeightWatchers has experienced meaningful disruption over recent years. However, I am optimistic about our ability to lay a path to future growth. From the value of our full and expanding spectrum of solutions, to the strength of our brand and our important role in the evolving global healthcare landscape. We have the fundamentals of what we need to be successful. We know that the future of weight management is one where clinical options are paired with behavioral solutions, not either/or. And that WeightWatchers is uniquely positioned to provide this to consumers at scale.

This is a defining time for our field and our company. We need to ruthlessly assess and fix parts of our business, not currently performing to the levels required. The team is committed to moving fast to make change, yet we know the scale of the task at hand will take time. However, let's remind ourselves that WeightWatchers has successfully navigated disruption and transformation many times in our 61 years. Emerging each time with greater strength and clarity of purpose. We're confident in the importance and relevance of our mission. To empower people to live healthier, longer lives through our trusted leadership position and our many advantages that give us the right to win.

As we look ahead to the future of this business, I see many areas of unquestionable strength. Firstly, and perhaps most importantly, we have a portfolio advantage. While many newer entrants to our base focus on just one part of our solution set we have built with intentional breadth, not only depth. Our full spectrum weight management platform is uniquely positioned to meet members' needs wherever they are on their weight journey. Under the leadership of Chief Product Officer Donna Boyer, who's with us on the call today, we are actively focused on making it much easier for our members to more fluidly move in and out of and across the various components of our program.

We believe in building solutions for a healthy life tailored to a member's individual needs, not isolated products for specific moments in time. This is perhaps our biggest opportunity and the area in which we have the most immediate and sizable work to do.

Secondly, we have a scientific advantage. We've spent decades investing in research and development to bring our members programs that work. With over 175 published papers of clinical research and more underway specific to our GLP-1 Program, we time and time again prove the efficacy of our solutions. As one example, we know our behavioral program is 3.5 times more effective for our members in trying to lose weight only with standard nutritional guidance. We also know that our WeightWatchers Clinic members taking weight loss

medication paired with our Nutritional Points Program lose 11% more than those using medications alone. And that 81% of WeightWatchers Clinic members agree that compared to primary care, we provide better ongoing care and support. There are so many more proof points and they matter more and more in a world of increasing volumes of false claims and misinformation.

Thirdly, our community is a distinct advantage and a highly motivated one. We've seen 60 million plus members over our history supported by thousands of our incredibly dedicated coaches, clinicians, care team and field staff. Each member has access to a dynamic online community through our app, which sees high levels of engagement as well as in-person and virtual communities through our workshops. Roughly 20% of our members at any time are on our program with a friend, and those referred by a friend have both a 20% higher retention rate and lose approximately 45% more weight by week 12 compared to other members on the program. Talk about the benefit of community.

In addition, we have a vast community of prior members, a significant portion of whom returned to WeightWatchers at various stages of their weight management journeys and who represent a meaningful opportunity. This is particularly evident in WeightWatchers Clinic, where over 60% of signups year to date have come from existing and prior WeightWatchers members. Our entire business was formed on the basis of people coming together to help and support one another. And we continue to have a workshop business that, while evolving for a digital world, remains an important part of our competitive offering. Don't ever underestimate the power of an engaged community.

And finally, our clear advantage with our iconic, trusted brand. We have 60-plus years of expertise and legacy. And time and time again, our consumer research has shown that we remain a brand that people trust with proven programs. We've started some initial work to refresh our brand under the leadership of our recently appointed Chief Brand Officer, Phillip Picardi, to bring renewed energy to how we engage with both existing members and potential future customers.

I'm excited for the first glimpse of this work during the first quarter and our peak season. While the visual updates will include a fresh direction and move us forward, our messaging will reflect the values that have always set us apart: community, joy and livability. WeightWatchers continues to have roughly twice the brand consideration of our nearest competitor. So we have a strong starting point from which we're excited to build upon and grow.

As well as refreshing our brand, we'll be doubling down on our end-to-end marketing strategy. Too often our marketing feels confused and lacking a clear call to action or a reason to engage. As we've expanded our solutions to include clinical and adapted to a rapidly evolving market, we need to refocus on clearly communicating the full value and breadth of our comprehensive offerings. A common theme in our focus for the coming quarters is the need to untangle complexity across different areas of our business, simplifying our approach to drive improved results.

Stepping back, we're confident we have the assets needed to thrive in today's high growth weight management space. However, there's urgent and significant work ahead to bring it all together into a cohesive solution, to more effectively communicate the value and impact and to meaningfully improve the experience once you're in the WeightWatchers ecosystem. We're fully committed to realizing this potential and look forward to sharing our progress along the way.

Moving on to our portfolio of solutions, there's been a lot of focus on our clinical business since our acquisition of Sequence. This is an area of the market in significant demand with some predicting that up to 30 million people in the US may be using GLP-1s by 2030. As expected in early growth cycles, this surge in demand has also drawn

new competitors, increasing customer acquisition costs and flooding key channels with content and information. The rapid adoption has also outpaced supply, resulting in drug shortages and prompting the introduction of compounding solutions to meet demand.

To address continued drug shortages, expanding both accessibility and affordability of our clinical weight management solution, we recently added compounded semaglutide to our wide formulary of branded and other generic medications. Lack of access and affordability are the primary reasons for the churn of the Clinic subscriber. The combination of a slowly improving supply trend, albeit still low, with a number of improvements in our member journey helped us improve Clinic member retention to 7.5 months in the third quarter from 6.5 months in the second.

In addition to shortages, insurance coverage remains a prohibitive factor for most. Over the last six months, approximately 45% of WeightWatchers Clinic members eligible for and prescribed a GLP-1 by their clinician have been denied coverage by their insurance after three prior authorization requests. In fact, over 50% of current WeightWatchers members have expressed consideration of a compounded GLP-1, largely due to these factors. And that's why, after thorough research and careful evaluation, we partnered with a trusted FDA registered 503B outsourcing facility that meets our high standards for quality and patient care.

We saw an immediate and positive impact on signups in our clinical business following this launch with the single highest day for Clinic signups in 2024. Performance has continued to be positive to date with signups remaining elevated to prior months, albeit we do not expect compounding to have a material impact on our 2024 overall business results due to the relatively small number of the new clinical subscribers in proportion to our overall business. However, we're pleased to see the positive trends continue into the fourth quarter with our Clinic subscribers today representing growth from the end of Q3.

We're committed to ensuring our members have access to the solutions they need while maintaining full regulatory compliance. We're optimistic the supply issues can be resolved allowing branded medications to reach even more people who need them, and WeightWatchers is best positioned to meet that additional demand. Although competition continues to drive a significantly higher cost of acquisition compared to the same time last year, which caused us to be cautious with marketing spend in the third quarter, and ongoing medication shortages have impacted this area of our business throughout the year. We're confident in the meaningful growth opportunity the clinical offering represents for our business over the long term.

While we're expanding our clinical offering, our research shows that only about 10% of GLP-1 users intend to remain on these medications for the rest of their lives. This is where the comprehensive WeightWatchers Behavioral Program, specifically the program we tailor for those on GLP-1s, can serve both as an effective foundation while on medication, ensuring critical complementary nutritional elements as well as a sustainable off ramp for these members moving forward.

Moving to the rest of our platform, we must materially improve our digital member journey. We need to eliminate years of accumulated friction and more seamlessly integrate across the solution set. We make it too hard to be a WeightWatchers member today. Our vision is to create a seamless experience that allows members to explore our full range of weight management solutions from behavioral programs to clinical support and community engagement and additional support as we add on services like registered dietitians. Our priority is to integrate and modernize so members can more easily benefit from the full suite of tools the WeightWatchers program has to offer and the results it delivers.

All of this is specific to our direct-to-consumer business. Let me talk about B2B. The emergence of effective clinical solutions is having a profound impact on both employers and on payers as demand for access to weight loss medication continues to explode. We believe it's going to be increasingly hard for employers not to offer coverage for weight loss medications, given their positive health benefits, particularly as more suppliers enter the markets over time and drive down cost. This represents a clear and growing long term opportunity for WeightWatchers with the breadth and effectiveness of our program; a unique differentiator. Our B2B offering delivers a robust ROI for employers and insurers across all program options, with our Clinic Program achieving nearly 4 to 1 paybacks. We're strategically adapting our solutions to meet this evolving market, led by Scott Honken, who recently joined as a Chief Commercial Officer.

Wrapping up, there's no shortage of opportunity for WeightWatchers today and in the future, in the US and abroad. To revert this business to growth, we need to double down on our strengths and the foundation and breadth of our value proposition, which is more relevant today than ever before. We need to obsess about our member experience and leverage our full toolkit, not only its component parts. We need to be bold and clear as we engage both with our existing members and potential future customers.

At a high level looking forward, we're focused on: one, the simplification and integration of our digital experience, creating the ability to move easily in, out and across all we have to offer, irrespective of where a member is on their journey, listening to our members and truly building to the power of one WeightWatchers; two, a revitalization of our brand, clarifying and unifying our currently disparate marketing messaging, particularly in a world of elevated CAC and prolific competition in the clinical space; three, continuing to leverage our deep science-backed heritage in this new world of GLP-1s, not only in the doctor's office, but as a fully integrated, sustainable and livable solution with our nutritional expertise and community support as crucial differentiators that support maximum results; four, partnering with employers and health plans to help them provide access in an affordable and scalable manner to the tens of millions of employees and members seeking support; and five, innovating and adding to our platform where we see value for both members and our business for the short and longer term.

Much of this work will take time and as we move forward, the team is taking a disciplined approach to spending and resource allocation, recognizing that some initiatives will need to be sequenced as we build for 2025 and beyond. We'll move forward thoughtfully but decisively, balancing near-term performance with investments in our future growth opportunities.

And with that, let me turn it over to Heather to walk us through the quarter and our outlook in more detail.

Heather Stark

Chief Financial Officer, WW International, Inc.

Thanks, Tara. As Tara emphasized, despite near-term signup challenges, we remain confident in our strong competitive advantage, unique market position and talented team to ultimately drive this business back to growth. We remain on track to deliver the full year guidance that was communicated last quarter. We continue to act to improve our profitability and liquidity profile and I'm encouraged to see our cost savings efforts bearing fruit as evidenced by our strong gross margin expansion, which sequentially increased and is up 625 basis points year to date versus last year. We're on track for our \$100 million cost action announced last quarter with meaningful savings in both gross margin and G&A expected in Q4 and beyond. And I'm pleased to see our average revenue per user stabilize through the first three quarters of the year with stability being driven primarily by subscriber mix and in line with expectations.

Turning to our third quarter 2024 results, note that all year over year financial comparisons are on a constant currency basis. We ended Q3 with \$3.7 million subscribers, a decline of 9% year over year, reflecting year to date

recruitment declines as consumer acquisition costs increased substantially compared to last year. Revenue totaled \$193 million. Within this, subscription revenues were \$191 million, down 6% year over year with declines in our digital and workshops subscription revenue. Subscription revenues benefited from \$19.1 million of clinical subscription revenues. Digital and workshops revenue was primarily driven by lower signups and incoming subscribers, coupled with the continued mix shift from workshops to digital and a higher portion of digital subscribers within their initial lower price commitment periods.

Clinical subscribers of 78,000 at the end of the third quarter represented growth of 71% compared to prior year, driving a \$9 million increase in subscription revenue. Signup trends across the business have been challenging in this environment and significantly impacted by competition-driven increases to consumer acquisition costs. Other revenue of \$2 million declined \$10 million year on year due to the discontinuation of our low margin consumer products business at the end of 2023. Adjusted gross margin was yet another record high at 69.1%, up from 66.2% in the prior year and 67.9% last quarter. Expansion year over year was driven primarily by actions to reduce the fixed cost base within our business and the discontinuation of our lower margin consumer products business.

Marketing expenses of \$44 million were down 8% year over year and almost 20% sequentially as we continue to manage to a prudent LTV-CAC ratio. In the third quarter, we experienced a roughly 30% year on year increase in cost to acquire, which resulted in a decision to pull back marketing dollars to preserve spend for the fourth quarter, aligned with the timing of program news and creative execution while keeping full year spend flat to prior.

Adjusted G&A of \$53 million was down 7% versus prior year. Q3 2024 G&A included a nine month or three quarter compensation accrual as compared to a three month or one quarter compensation accrual in the third quarter 2023. This resulted in higher G&A of \$7 million in this year's third quarter. Excluding the \$7 million impact, adjusted G&A would have decreased by 20% or \$11 million versus the prior year period. A year over year reduction in adjusted G&A reflects the impact of our previously announced cost savings initiative and we are on track to achieve the run rate \$100 million cost savings by the end of 2025. We expect to realize approximately \$20 million of cost savings in 2024 and the remainder in 2025, with cost savings in 2025 to be split across adjusted G&A and cost of revenue with slightly more of an impact to G&A.

Adjusted operating income in the third quarter was \$36 million, reflecting an operating margin of 18.5%, a year on year increase of almost 150 basis points. Adjusted EBITDA was \$40 million, which was negatively impacted by approximately \$6 million of other expenses recorded below operating income, primarily driven by the negative impact of foreign currency on intercompany transactions. During Q3 2024, we recorded non-cash impairment charges of franchise rights acquired totaling \$57 million. These impairments were primarily driven by an increase in the company's weighted average cost of capital reflecting market factors. Adjusted EPS was \$0.24 and included a \$0.33 tax benefit from the valuation allowance mentioned in our press release. You can find a detailed summary of the adjustments within our supplemental materials and in the financial details section of our earnings press release posted on our site earlier this morning.

Shifting to our outlook for the rest of the year. While the recent launch of compounded semaglutide was encouraging in terms of momentum, we are pleased to be expanding access to medication for our members. As Tara mentioned, we expect it to have minimal impact on our consolidated 2024 results. We are reiterating our previously provided guidance for end of period subscribers, revenue, adjusted operating income and adjusted EBITDA.

For the full year 2024, we expect year-end total subscribers of at least 3.1 million, which represents a decline from the end of 2023 and will create a material headwind to revenue in 2025; total revenue of at least \$770 million;

adjusted operating income of at least \$100 million; and adjusted EBITDA of at least \$150 million, which is consistent with previously provided guidance, but for clarity, now also excludes the non-cash intangible impairment charges and former CEO separation costs that occurred in Q3.

Cash outlays for the 2024 restructuring plan and remaining payments for prior year actions are expected to be approximately \$30 million in 2024, with approximately \$5 million remaining in Q4. Full year interest expense is expected to be between \$105 million and \$110 million, a year-over-year increase of approximately 10% to 15%, largely driven by the expiration of our \$500 million hedge at the start of Q2 2024. We expect modest benefit from the recent reduction in interest rates and remain within our prior guidance range.

For the full year, we expect income tax expense of up to \$10 million. Excluding the impact of the valuation allowance, impairments and other discrete tax items, we continue to expect an income tax benefit of up to \$10 million. We expect cash taxes net of refunds to be approximately \$20 million for the year.

As anticipated and communicated in prior quarters, we are pleased to see cash flow from operations improve and revert to positive in the third quarter. We continue to expect to have a modest use of cash from operations for the full year 2024. As a reminder, our business is a highly cash generative business, pre-debt servicing charges and is bolstered by our subscription billing model and the stickiness of our subscriber base. CapEx, which is primarily capitalized software, is expected to be approximately \$20 million. Depreciation and amortization is expected to be around \$40 million.

Turning to our capital structure. We ended Q3 with approximately \$57 million of cash, up from \$43 million at the end of the second quarter, plus undrawn revolver access of \$61 million. With our cash position plus our revolving credit facility and bolstered by the cost actions underway, we believe we have sufficient liquidity for our working capital needs, including cash outlays related to our head count actions and servicing our debt. We have attractive debt terms with no maturities for our term loan or senior notes until 2028 and 2029. However, we acknowledge that our debt burden is significant, with our net debt to adjusted EBITDA leverage ratio at 10.4 times at the end of the third quarter. As such, we have recently appointed advisors to assist us in the evaluation of options related to our overall capital structure. We have nothing further to share on this at this time.

2024 reflects a focus on profitability as we navigate a challenging signup environment in a rapidly changing industry. And we remain on track with our prior expectations. I have confidence we are taking the right steps that will best enable the company to revert to growth while managing liquidity and setting us up for longer term success.

I'll now turn the call back to Tara.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Thanks, Heather. For over six decades, WeightWatchers has helped tens of millions of people transform their lives through our proven approach to weight management. As we navigate an evolving health landscape, it's crucial that we return to those core strengths, have defined WeightWatchers from the beginning: innovation, continuous learning, a commitment to science-backed solutions, the importance of community and livable solutions for a healthy life. As Interim CEO, I'm fully focused on leading the company through this next phase and driving meaningful progress in these strategic initiatives over at least the next six months. I'm honored to work with our team on behalf of our current and future members in this incredible company.

With that, we'll be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Nathan Feather of Morgan Stanley. Please go ahead.

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

Hey, everyone. Thanks for the question. It will be helpful to get your thoughts on what has worked early in the compounding launch across conversion, retention, and the ability to market. And taking that together, are you seeing meaningful uplift in LTV to CAC there?

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Hey, Nathan. Yeah, listen, as we mentioned on the call, we were extremely pleased with the launch of compounding, which was really only a few weeks ago at this point. And I really give the team here a huge amount of credit for the extensive work and diligence that went into that launch over many, many months. And actually, Donna, your team led that work. So perhaps you want to comment on some of these positive trends. We also gave some of those statistics in the call, but do you want to add some further color?

Donna Boyer

Chief Product Officer, WW International, Inc.

Sure. I'm happy to. Thanks for the question. Immediately after our compounding launch, we saw a positive impact on both our signups and our CAC. Our launch day was our highest, as Tara mentioned, our single highest launch in 2024. And we are continuing to see signups that are exceeding our end of Q3 trends. As to the success, there's multiple factors there. One is really the offering of compounded semaglutide in itself, resolving shortages that has been a challenge for conversion overall. So having the availability of supply has contributed to that. In addition to that, though, a combination of always looking at our pricing strategy and the availability of flexibility of how members are able to access that. In combination with, as Tara mentioned, some of the friction on our website and our conversion funnels have been resolved with this launch. So, the, primarily the availability of the drug being able to provide members access has been a factor in and of itself, coupled with some of the member experience changes that we've seen affecting both conversion and with that in turn, CAC.

Heather Stark

Chief Financial Officer, WW International, Inc.

I would just add to that. Thanks, Donna. Just an overall reminder that we don't expect this to have a material impact to the overall business due to the proportion of Clinic versus Behavioral subscribers at this time.

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

Okay, great. That's all helpful. And then, sorry, you walked through a lot of initiatives in the pipeline at various different timelines. I guess, near-term, what are the maybe two or three primary priorities that you're looking to get in place ahead of peak season to hopefully drive some re-acceleration and the core clinical?

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Sorry, was that, Nathan, was that, I missed the beginning of the question. Was that specific to our clinical business or more general question?

A

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

More general, just kind of the key priority ahead of peak?

Q

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Yeah, absolutely. Well, listen, I think we spoke to many of them on the phone in the prepared remarks. And I think what you're hearing is a focus on awareness of the breadth and strength of our offering. And while that may seem somewhat obvious, I think we've, we haven't done as good a job as we could have done reminding the market of all that is part of the full spectrum of WeightWatchers solutions. We actually have a very low awareness, for example, around the fact that we even have a clinical solution. And so when we think about peak, we're really going to be doubling down on those core strengths, the values of the WeightWatchers platform that have always been in place. This is livable. This is not a fad. This is, these are solutions for life. But we're also going to be very focused on awareness and engagement as we really hammer home that messaging.

A

I mentioned a brand refresh. We're not doing any major rebranding. But, I think the brand refresh is going to be fantastic. I'm looking forward to seeing it in the first quarter. A little more modern, a little more WeightWatchers, a little more human, a lot more community, a lot more joy. And just sort of getting back to the roots of who we are, but certainly with a focus on the breadth of all we bring to offer.

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

Great. Very helpful. Thank you.

Q

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Welcome.

A

Operator: The next question comes from Alex Fuhrman of Craig-Hallum Capital Group. Please go ahead.

Alex Joseph Fuhrman

Analyst, Craig-Hallum Capital Group LLC

Hey, guys. Thanks for taking my question. Wanted to ask about retention on the clinical side of the business. I think you mentioned that you've seen retention improve from 6.5 months to 7.5 months. Can you give us a little bit of color on why your clinical members are typically churning out? Is it a matter of side effects or having reached their weight loss goals, or is it more about cost and access? And how has that been evolving over the course of the year?

Q

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

A

Yeah, hey Alex, I mean, I think we maybe said it in the script, but it's absolutely cost and access. They are the biggest contributing factors to why a clinical subscriber churns. So as we've launched compounding, but also, as Donna alluded to, some additional product improvements just in the member experience, those are really, it's super encouraging to see those have such a tangible and immediate impact on our retention.

Alex Joseph Fuhrman

Analyst, Craig-Hallum Capital Group LLC

Okay. That's really helpful to hear. And then is it your kind of over expectation going forward that longer term you could get clinical retention up above and beyond what you see or up to the levels that you see in the clinical program or, is it more about, I guess, kind of keeping people on the traditional program as well when they transition off the clinical program, as a means of keeping them engaged with the brand?

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Absolutely the latter. So, look, we gave you a stat that about 10% of GLP-1s members do not intend to remain on those meds for life. And again, when we talk about building to one WeightWatchers, we are talking about being able to meet members wherever they are on their weight journey, that may be entering the WeightWatchers ecosystem at a point where you're looking for medication solutions. But the pairing of those with our nutritional program both while you're on medication and as you round off medication for the longer term, we believe is a really, really critical part of this solution here for our members and ultimately successful long-term outcomes. So look, we're not giving any targets today on things like retention. But suffice to say that, yeah, we're very optimistic and ambitious about what this business can look like over the long term.

Alex Joseph Fuhrman

Analyst, Craig-Hallum Capital Group LLC

Okay, that's really helpful. Thank you very much.

Operator: The next question comes from Karru Martinson of Jefferies. Please go ahead.

Karru Martinson

Analyst, Jefferies LLC

Good morning. When we kind of do this rebranding, the building to a one WeightWatchers, I mean, how much of the \$80 million in cost cut savings that you're looking at for 2025 will need to be kind of reinvested in the business and how much will come to the bottom line?

Heather Stark

Chief Financial Officer, WW International, Inc.

Hey, Karru. We definitely looked at investment needed as we were designing the \$100 million cost action. There is investment required as we build into next year. And, we are not guiding to 2025 at this time, but we are absolutely laser focused on profitability and managing our liquidity through the turnaround. And we expect to see that full run rate \$100 million cost savings reading through by the end of 2025.

Karru Martinson

Analyst, Jefferies LLC

And when we look at that liquidity, we feel comfortable that we can carry that liquidity, let's say, at least to the revolver maturity?

Heather Stark

Chief Financial Officer, WW International, Inc.

A

Yeah. We've shared our comfort with our cash and liquidity position. And we've designed our cash management and cost management exercise with that in mind. I would, as we look through the year, remind you that our first half of the year is heavier cash use than the back half of the year. But also remind you that we're a cash generative business and working through the \$100 million cost savings to preserve liquidity through the turnaround.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

A

And hey, Karru, the only thing I would add to that is, look, speaking personally, I'm four weeks into this role. Donna, I think you're, what, six months, so this is your first – both of our first 2025 planning season at WeightWatchers, and I really do give the team a lot of credit for the tough decisions they took as it relates to those cost actions. But we absolutely will also be investing in the business throughout 2025 to get this business back to growth. We see huge opportunity in terms of really leveraging the assets we already have. So, as Heather said, we're not guiding to 2025 today and we'll be going through our strategic planning and those budget allocation over the next couple of months and updating you in Q1 next year.

Karru Martinson

Analyst, Jefferies LLC

Q

Okay. And just lastly, in terms of those consumer acquisition costs, I mean, have you seen any change in the overall competitive market? As I think it was Zepbound and others came off of the shortage list. Is that having any impact on the competitive response out there?

Heather Stark

Chief Financial Officer, WW International, Inc.

A

Yeah. So, expectations at the start of the fourth quarter, we're definitely seeing some early relief from the significant increases we referenced having seen last quarter. But look, CACs are still elevated. There's competition and noise in this space. It's evolving. And we are managing through that and managing through that prudently, working to compete more effectively where the LTV/CAC makes better sense and going from there. But the move to offering compounding as well, our ability to speak to one WeightWatchers is reading through. And as I said, there's still pressure but as I said, the start of the fourth quarter some early release.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

A

[indiscernible] (39:01)...

Karru Martinson

Analyst, Jefferies LLC

Q

Thank you very much. I'm sorry.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

A

Yeah. No, I was just going to add to that as a general comment, not a sort of specific one. But as a general comment, we have the ability to ease our marketing efficiency and effectiveness as we become more cohesive in how we both build our product when you land somewhere in the WeightWatchers ecosystem and as we

communicate our product. So, I just want to make that point. It doesn't change the scale and the impact of the competitive market around us. But I do think there are things that Donna, in particular, and her team and Phil and his team and the marketing crew that we can do to make life a little easier for ourselves in that competitive environment as it relates to elevated CAC.

Karru Martinson

Analyst, Jefferies LLC

Thank you very much. Appreciate it.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Welcome.

Operator: The next question comes from Michael Lasser of UBS. Please go ahead.

Henry Michael Carr

Analyst, UBS Securities LLC

Good morning. This is Henry Carr on for Michael Lasser. Thanks so much for taking our question. I wanted to start just by asking what gives you confidence that employers will need to offer more weight loss solutions to employees in the future? And why is WeightWatchers positioned well to be part of that solution?

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Yeah. Hey, Henry. Look, we're pretty early here in the overall innings in terms of how obesity meds fit within this marketplace. And obviously, insurance coverage remains pretty low right now, particularly given the high cost. We believe that ultimately, employers and insurers are going to really struggle and find it very hard not to cover these medications in light of their broad health benefits. So, we do think that there'll be tailwinds in this space. It's obviously a longer lead time, but we're super bullish on this over future years, and particularly our position in this marketplace with the breadth of that offering. I think employers are looking for a much more extensive suite of solutions than a single point solution. And certainly, that's where WeightWatchers really, really plays. So we feel good about this over the long term.

Heather Stark

Chief Financial Officer, WW International, Inc.

I'd just add to that, too. We've seen a positive fourth quarter selling season. We do expect that to read through into 2025 with newly contracted and expanded channel partnerships and direct to employer relationships. But as a reminder, we're building off a small base and we do expect the pace of growth in B2B, while we're bullish on the opportunity, we do expect it to be gradual.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Yeah, for sure.

Henry Michael Carr

Analyst, UBS Securities LLC

Great. Thanks so much. And I just wanted to ask a little bit more about the acquisition costs. I believe they were up 30% year over year. With marketing spend being shifted into 3Q, not exactly panning out, was a lot of that due to just increased expenses related to the election and digital channels and should this abate moving forward and into 2025? Any clarity [ph] you think about (42:08) how that's trended and what could come would be super helpful. Thank you.

Heather Stark

Chief Financial Officer, WW International, Inc.

A

Sure. We're seeing this as largely competition in the space driving cost to acquire up, there's obviously media inflation going on in the space as well across channels. I don't see this defined as one channel. I think the US election potentially impacted it as well and that's true into the start of the fourth quarter as well. But as I mentioned before, our expectations for the fourth quarter, as we referenced, we do see some early relief there. But I would say the CACs are still elevated going into the fourth quarter.

Henry Michael Carr

Analyst, UBS Securities LLC

Q

Great. Thank you so much.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

A

Welcome.

Operator: This concludes our question-and-answer session. I would like to turn the call over to Tara Comonte for any closing remarks.

Tara M. Comonte

Interim President, Chief Executive Officer & Director, WW International, Inc.

Yes. Thanks, everyone. And we really appreciate you joining us this morning, particularly on this busy morning as it is here in the US. And, look forward to following up with you over the course of the quarter and on our call next quarter. So, thanks, everyone.

Operator: The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.

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