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# WW International, Inc. (WW)

Q4 2023 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to the WW International's Fourth Quarter and Full Year 2023 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions]

I would now like to hand the call to Corey Kinger, VP, Investor Relations. Please go ahead.

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**Corey Kinger**

*Vice President-Investor Relations, WW International, Inc.*

Thank you, everyone for joining us today for WW International's fourth quarter and full year 2023 conference call. At about 4 PM Eastern time today, we issued a press release reporting our fourth quarter and full year 2023 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 located at [corporate.ww.com](http://corporate.ww.com). Supplemental investor materials are also available on the company's corporate website in the investor section under presentations and events.

Reconciliations of non-GAAP measures disclosed on this conference call to the most directly comparable GAAP financial measures are also available as part of the 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 company's 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 Sima Sistani, CEO; and Heather Stark, CFO.

I will now turn the call over to Sima.

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## Sima Sistani

*Chief Executive Officer & Director, WW International, Inc.*

Thanks, Corey. Good afternoon, everyone; and thank you for joining us today. Last year saw huge shifts in the weight management industry. WeightWatchers is moving quickly and strategically to lead the future of weight health.

In addition to being digital first, we believe the weight loss space will be led by the acknowledgement that weight loss is a matter of healthcare. This is a paradigm shift because weight loss has been and, unfortunately, often still is viewed as a vanity issue versus a health issue. The rise of second generation GLP-1 medications for the treatment of obesity is changing the landscape. While GLP-1s are certainly not for everyone, without a doubt, they are changing the conversation to a broader embrace of medical weight loss.

WeightWatchers has multiple pathways of science-backed solutions that improve weight health; and importantly, the FDA states that GLP-1 medications for weight management should only be used in conjunction with a program for behavior modification. And as a reminder, WeightWatchers is the number one doctor recommended behavior change program for weight loss.

WeightWatchers is creating the category of weight health, and to do so requires us to go further in the transformation of our business and expansion of our offerings to deliver the support, services and treatments that many consumers need to understand and advance their weight loss journeys in an accessible and affordable way. This is a multiyear effort, but one that will strengthen our business both today and tomorrow. More on that. But first, turning to our 2023 performance.

2023 was a pivotal year marked by a great deal of change as we began transforming our business for the future. At the same time, through a revamped approach to performance marketing and aided by improvements to our product experience, we returned WeightWatchers to year-end subscriber growth for the first time in three years, ending 2023 with 3.8 million subscribers, up 7% year-over-year.

Almost a year ago, we announced the acquisition of Sequence, which now operates as WeightWatchers Clinic. We ended the year with 67,000 clinical subscribers, up 47% sequentially and nearly tripled the subscribers since we announced the acquisition last year. And in just eight months, we reimagined our platform by combining behavioral and medical weight health solutions and launched an integrated member experience, a portfolio of solutions that meet members' specific needs, all operating in one place, all under one brand.

We also completely revamped our organizational structure. When I joined WeightWatchers nearly two years ago, I was struck by how much it was organized and operating like a multinational consumer retail company, albeit, one with an impressive tech stack and digital capabilities. So the bones were there, but the organizational structure hampered our ability to innovate and execute effectively.

Over the last year, we have established a centralized organization across all key functions, exited non-subscription business lines and substantially reduced our corporate head count. With a lean and focused team, we can operate with more agility against shared goals as a digital health company. I'm encouraged by many

aspects of our performance, particularly around clinical subscriber growth which we expect to continue growing sequentially each quarter this year.

We are making intentional choices to prioritize the initiatives that we believe will have the greatest benefit for the long-term health of our business. We believe this puts us on the right track to deliver growth in total subscribers, growth in subscription revenue, growth in gross margin and growth in operating income in 2024. As demonstrated by our year-end subscriber numbers, winter season got off to a good start with particular strength in clinical sign-ups in late December following the high visibility launch of WeightWatchers Clinic.

In our research, we are finding that the relevance of a New Year season has lessened with fewer consumers interested in making resolutions. This aligns with the overarching cultural shift happening in weight loss. Not to say that January still isn't a key season for sign-ups, but just not to the degree it once was. Therefore, we are well-positioned in our strategic decision to pursue an evergreen product innovation and marketing strategy reducing the seasonality of our business. This shows up in the Q1 to Q4 seasonal slope in the end of period subscribers and also in how sign-ups are distributed throughout the year.

In 2022 and prior years, approximately 40% of our annual sign-ups occurred during Q1. In 2023, we intentionally recalibrated our marketing spend to better maximize LTV CACs, which shifted several percentage points of sign-ups from Q1 into Q3. We plan to take that same approach in 2024. This is the first Q1 where we also have our clinical offering in addition to our well-known behavior change program.

So while our total marketing spend in Q1 is expected to be roughly the same as in the first quarter of 2023, the spend dedicated to driving sign-ups to our core program is expected to be down year-over-year as well as we allocate a portion of our spend toward our clinical offering and B2B related brand building, which we expect to result in lower total sign-ups year-over-year for our core offerings.

However, with the strong growth we are seeing in clinic, we believe this is the best approach to prioritize our investments in growth areas while still delivering growth in total subscribers and driving greater operating income in 2024. And with clinical continuing to ramp, along with growth in digital core subscribers, we are on a path to deliver year-over-year, end of period total subscriber growth in each quarter of 2024 and despite significant declines in workshops, we expect subscription revenue to grow year-over-year in 2024.

Our subscriber base is benefiting from improvements in activation and engagement over the past year, which are starting to show green shoots in retention which ultimately would benefit LTV. Our team has done significant work in streamlining our app and now we are focused on selectively adding capabilities that drive member success.

On our core digital product we are already beginning to better understand and leverage AI and I believe this is just the beginning of how we can add greater value to members in a modernized, digital first experience. Also coming soon are new features and integrations that enhance community, coach connections and making food decisions, which are foundational to any weight health journey. This is all part of our ongoing digital product strategy to enhance member satisfaction and success, the impact of which builds over time.

Now let's further expand on our clinical performance and the landscape. We continue to drive growth in clinical subscribers that we believe is ahead of the growth rate of new GLP-1 prescriptions dispensed, suggesting that we are taking share in this market and are well-positioned to grow alongside the momentum in our category.

Supply constraints continue to challenge this category, particularly the availability of GLP-1 starter doses. While many competitors in the market are utilizing compounding pharmacies, we are steadfast in our commitment that

WeightWatchers Clinic will only prescribe FDA approved medications to our members and not prescribe compounded medications.

We are confident this is the right decision for the clinical safety of our members and our business, both for the immediate and the long-term. Our position is aligned with the FDA's guidance, which urges patients to obtain prescription drugs only from state licensed pharmacies, where the FDA and state authorities can assure the quality of drug manufacturing, packaging, distribution and labeling. The FDA has received adverse event reports after patients used compounded semaglutide. While others may choose to be opportunistic at this time and turn to compounding to help boost recruitment and retention, this is an issue that we will not compromise on.

We have a 60 plus year track record of science backed solutions and not hopping onto fads and snake oils for the weight loss. Our members and partners trust us and I plan to respect that trust and maintain our high standards and values, especially around clinical protocols. I'm confident that as the supply of GLP-1 medications improves, we are very well positioned to recruit and retain members in our clinic offering at an attractive LTV CAC beyond the success we are already seeing today.

In the meantime, we have been educating consumers with top of funnel initiatives about the WeightWatchers evolution and the category evolution. But as supply returns, we will be adjusting our marketing approach, moving more into performance based tactics for clinic, and highlighting our sustainable approach to medical weight loss. In addition to providing comprehensive, high touch and personalized weight healthcare, which is the real value of WeightWatchers Clinic, the tech platform supporting it is what makes it scalable and creates a better member experience.

40% to 45% of clinic members that have prior authorization submitted get one approved for insurance coverage, which is 5 percentage points to 10 percentage points higher than at the end of June, and compared to 22% of US employers, according to the International Foundation of Employee Benefit Plans.

Insurance coordination is a frequent pain point for consumers. So to have a solution that makes that process quick and easy is a great differentiator. In 2024, we are focused on building on our differentiators by expanding care, expanding access and expanding payment options. We call this Project Expansion. These changes will have a real impact on our business model. Importantly, the financial guidance we are providing today does not include any significant revenue benefit from these exciting initiatives.

So first, let's talk about expanded care. I think of WeightWatchers as having one membership. Everyone under our umbrella is a WeightWatchers member. So while we speak to members being digital, workshops or clinical, the future is in members having our foundational behavior change offering as a basis and the ability to add on and move between membership types depending on the level of support needed. For instance, a digital subscriber coming in today on a long-term commitment for \$10 a month, can easily become a member at a significantly higher monthly rate down the road if another one of our solutions is a better fit to their individual needs.

Approximately 70% of our clinics sign up since December are from current or lapsed WeightWatchers members, and within that 20% of the clinical sign-ups were active members of our core program choosing to upgrade to clinical via the new tab in our app. The successful conversion rate from active subscribers at essentially zero CAC both enhances a member's weight loss journey and delivers greater ARPU for those members. This demonstrates how we can effectively leverage our existing member base with an integrated platform.

Our vision is to expand the care options that members can access based on their specific weight health needs, which would include subscription services such as metabolic lab test and dietician support, as well as, specialized

care depending on life stage and chronic conditions. This helps make their weight health experience less fragmented and more personalized.

Now, regarding expanding access. Throughout our history, WeightWatchers has been a leading provider and trusted brand name in the weight loss industry. Our buyer was primarily the individual consumer. Because of the massive shift in our category we know the end buyer is going to evolve. Today it's consumers. Tomorrow employers, payers, government, they will all play a larger role.

We plan on making WeightWatchers a covered benefit, both for our core behavioral program and our clinical offering. This is a process that won't be accomplished overnight, but one I am very enthusiastic about for the mid and longer term and one we will be pursuing aggressively. Our B2B team is making good progress in expanding the employer business. We recently announced that Labcorp, a leader in lab services, will offer WeightWatchers as a covered benefit to its US employees as well as their spouses, domestic partners covered under the Labcorp medical plan.

This includes the full weight health spectrum from behavior change to clinic. In order to receive prescriptions of GLP-1 weight loss medications through their health benefit, Labcorp employees will need to be using WeightWatchers behavior change programs. Other recent new business wins for offering our WeightWatchers behavioral program as a 100% covered benefit, include Deutsche Bank and Bausch Health. The reasons these employers choose to work with us include first our brand equity. WeightWatchers is a trusted partner that their employees see as a choice benefit. Our brand recognition possesses a rich, multi-generational history that resonates with consumers who are also employers.

Second, our science, WeightWatchers is the most studied weight loss program. It is clinically proven that we provide better outcomes with our personalized approach and behavior change program. We have the unique ability with our large dataset and clinical studies to inform and recognize phenotypes that can deescalate to more cost effective and sustainable weight management. As part of this ongoing effort, we launched a clinical trial in partnership with the Cleveland Clinic and look forward to reporting out these outcomes.

And finally, our consumer experience. We operate at a size and cost effective scale that few other companies in our category can match. And we do so with a powerful and differentiated consumer experience. While no single employer is expected to be a material driver of total subscribers or revenue this year, we are building momentum in this channel and believe it to be a critical growth driver for 2025 and beyond.

In addition to expanding access, we intend to expand payment options across our clinical services. Our goal is to allow members to use their insurance whenever possible, rather than having to shoulder the cost out of pocket. This will be an ongoing initiative, which we intend to roll-out in phases. While it takes time, this is really important because we believe the future of weight health will be predominantly covered by insurance.

We believe the capability to directly process insurance claims for WeightWatchers services will have a positive impact to sign-ups, retention, subscribers and ARPU over time. By leveraging and further advancing our technology, including AI for processing claims, we expect to be able to transform our go to market model in a highly scalable and profitable way.

In summary, 2024 is shaping up to be another critical year in WeightWatchers transformation. I am proud to say we have returned the company to a positive trajectory with anticipated growth in subscribers, subscription revenue, gross margin and operating income and Project Expansion gives us critical opportunities to further catalyze our growth and mission as the global leader in weight health.

I will now turn the call over to Heather to discuss our financial and 2024 outlook.

## Heather Stark

*Chief Financial Officer, WW International, Inc.*

Thanks, Sima. Turning to our 2023 full year results, note that all year-over-year financial comparisons are on a constant currency basis. We ended Q4 with 3.8 million subscribers, including 67,000 clinical subscribers. Our core WeightWatchers subscribers grew 5% year-over-year, marking the first year-end with subscriber growth since 2020. Ending the year with 3.8 million subscribers represents the best seasonal slope in our history and reflects our actions to reduce the seasonal nature of our subscriber base and improve the efficiency of customer acquisition.

Revenue totaled \$890 million, which was in line with our guidance. Year-over-year, revenue decreased \$151 million. Breaking this down, subscription revenues of \$823 million, which included \$31 million in clinical revenue, declined \$97 million, primarily driven by the headwind of the lower number of incoming subscribers at the beginning of 2023 versus 2022. Importantly, consumer products and other revenue declined \$54 million, largely due to the strategic decision to wind down our low margin consumer products business.

Adjusted gross margin of 61.9% was an annual record high and up 135 basis points from the prior year, driven by our actions to reduce our fixed cost base with our workshop real estate restructuring. Of note, the fourth quarter included a one-time charge of \$5 million within cost of sales for inventory reserves related to the wind down of our consumer products business.

Marketing expenses of \$238 million were down 2% year-over-year, reflecting more efficient spend as we were able to grow 2023 sign-ups versus the prior year with less marketing dollars. Adjusted G&A of \$223 million was down 4% versus prior year, despite the inclusion of clinical G&A expenses due to the benefits of restructuring and expense controls. Fourth quarter adjusted G&A was slightly better than our expectations due to lower than anticipated benefit-related items.

Adjusted operating income was \$89 million, which was above our previously provided guidance range, largely due to the lower than anticipated G&A expenses as mentioned. Restructuring charges totaled \$24 million in the quarter and \$55 million for the full year. Fourth quarter restructuring was higher than the previously provided estimate, as we continue to centralize and streamline our organizational structure to set-up for future investment. These actions drove approximately \$50 million of savings in 2023 and are expected to drive \$50 million of additional savings in 2024, which is allowing for investment in strategic priorities, including clinical expansion.

During the fourth quarter, we recorded non-cash impairment charges for goodwill and franchise rights acquired balances, totaling approximately \$4 million. Income tax was an expense of \$39 million, which reflected an increase in the valuation allowance to offset all US deferred tax assets due to the uncertainty of realizing future tax benefits of the assets. GAAP EPS was a loss of \$1.46, which incorporates the net negative impact of \$1.34 of items impacting comparability, including the valuation allowance, net restructuring charges, acquisition transaction costs and non-cash intangible impairment charges.

Turning to our clinical line of business, we are encouraged by our fourth quarter performance and ongoing integration efforts in the face of a continued challenging supply environment. While we are starting to see signs of more availability, supply constraints remained prevalent in Q4 and so far in Q1. Additionally, price and insurance remain critical issues leading to competitor use of compounded medications. As Sima mentioned, we will not

compromise on our stance to only prescribe FDA approved medications, even if it means bringing in fewer subscribers today than we could otherwise.

While the market continues to evolve and it's in its early days, there is no change in our conviction about our strong multiyear growth opportunity. We continue to increase our scaling readiness and integrate operations during this time. While this negatively impacts near-term gross margin, we are ready for improvements in supply. Q4 adjusted gross margin was north of 30%, and we expect to start improving this with revenue scaling in 2024.

Shifting to our outlook, we believe 2024 is going to be a year of continued transformation as we adjust to what we believe is the future state of how consumers will take part in the weight health market. We are focused on meeting consumers where they are in their weight health journey and to grow our total WeightWatchers subscribers. We've been encouraged to see that our digital and lab subscribers are converting to clinical subscribers.

However, we continue to see a shift away from our workshop business to digital and that more consumers are signing up for longer durations and on higher promotional days, indicating further price sensitivity to our behavioral offerings. As you heard from Sima, we are increasingly managing the business on a holistic and integrated basis, as we execute our strategic growth initiatives and expand how we engage our members. As previously shared, we plan to hold total marketing dollars roughly flat to 2023, within which we expect to still drive total subscription revenue growth.

We continue to leverage longer-term commitment offerings in order to optimize LTV to CAC and maximize total revenue and total subscriber growth in the current environment. We are beginning to see retention expansion with recent product improvements and we anticipate stable subscription LTV year-over-year in 2024. Behavioral ARPU measured as revenue per paid week, is expected to be down in the mid-single digits in 2024 due to the continued expansion of members and commitment.

To expand behavioral subscriber ARPU over time, it is essential to execute on the strategic initiatives Sima highlighted, including expanding care through the addition of new premium add-on services. We expect to end the year with total WeightWatchers subscribers between 3.8 million and 4 million, driving a second consecutive year of annual subscriber growth. Within this, we expect end of period clinical subscribers between 140,000 and 160,000 and we expect our core behavioral subscribers to grow year-over-year, despite a steep nearly 15% decline in our workshop subscribers.

Within our WeightWatchers behavioral offering, approximately 75% of sign-ups through January chose 10 month and longer commitments, compared to approximately 25% in January 2023 and approximately 45% for full year 2023. Reflecting where we are in the return to subscriber growth and members increasingly choosing longer-term plans, approximately 55% of subscribers entering 2024 were within commitment periods which we expect to increase in 2024.

We expect full year total WeightWatchers revenue to be \$830 million to \$860 million. Within this, we expect clinical revenue to be between \$100 million and \$110 million. Excluding the headwind from our exit of our past e-commerce and consumer products business, this reflects a modest increase in subscriber revenue year-over-year. We expect other revenue, primarily our high margin licensing business, to contribute up to \$10 million in 2024. While this is a \$55 million year-over-year revenue headwind importantly we expect this to be roughly neutral to operating income.

Gross margin is expected to be approximately 66% for the full year, up from adjusted gross margin of 61.9% in 2023, reflecting a higher mix shift to our digital business and continued read through of workshop actions. We

expect full year marketing spend to be roughly flat with 2023. G&A expense is expected to be between \$210 million and \$220 million for the year, which is slightly lower than 2023, due to our restructuring efforts and cost discipline and reflecting strategic investment to expand our clinical offering.

As a reminder, 2024 includes one additional quarter of clinical expenses compared to 2023. Therefore, we expect operating income to be between \$100 million and \$110 million. Of note, changes to modernize our technology organization have required us to update capitalized labor rate expectations. All else equal, this change is expected to negatively impact 2024 operating incomes by approximately \$9 million, roughly split between cost of sales of \$7 million and G&A of \$2 million. Importantly, this shift in operating methodology does not impact cash.

We expect EBITDAS to be between \$155 million and \$165 million. For the full year we expect income tax expense to be between \$10 million to \$15 million impacted by an increase in the valuation allowance expected next year. Excluding the impact of the valuation allowance, we expect an income tax benefit of up to \$10 million.

With respect to Q1, we expect to end the quarter with total subscribers of approximately 4 million, including clinical subscribers of approximately 85,000. We expect revenue to be approximately \$200 million and to have an operating loss of approximately \$15 million. As is typical for Q1, we have higher marketing spend compared to the remaining quarters of the year with the benefit of acquired subscribers driving revenue throughout the remainder of the year.

Turning to our capital structure and cash flows. We ended Q4 with approximately \$109 million of cash, plus an undrawn revolver. With our cash position plus our revolving credit facility, we believe we have sufficient liquidity for our working capital needs, including in-year cash outlays related to our restructuring actions and servicing our debt. Cash from operations was modestly positive for the full year, slightly better than the prior expectations of a modest use of cash. We expect cash from operations in 2024 to increase year-over-year from 2023.

As a reminder, 2023 included approximately \$45 million of cash payments for restructuring and we expect 2024 to include approximately \$20 million of restructuring payments associated with the 2023 restructuring plan. Our first half of the year cash needs are much higher than the second half due to increased marketing, compensation, timing and the Sequence acquisition anniversary payment with cash then expected to build through the balance of the year.

Following our recent organizational changes to centralize the business and reduce our fixed cost base, we are confident that we can operate our business and execute our strategic plans, all with lower levels of cash on hand requirements compared to prior years in the \$40 million range. And if needed, we continue to have access to approximately \$60 million of cash from the revolver for additional short-term cash cushion.

At year end our net debt to adjusted EBITDAS leverage ratio was 9 times. With our 2024 outlook, we expect our trailing 12 months leverage ratio to further increase in the coming quarters due to lower EBITDAS levels, in particular due to the capitalized labor methodology update mentioned earlier, before showing year-over-year improvement at year-end 2024.

We have very attractive long-term debt agreements with no maturities due until 2028 and 2029. We remain committed to improving our leverage ratio as we execute this sizable turnaround, while also opportunistically considering capital structure options. We expect full year interest expense to be between \$105 million and \$110 million, an increase of \$10 million to \$15 million compared to 2023, largely driven by the expiration of our \$500 million hedge at the end of Q1 2024.

As a reminder, we locked in these hedges in 2018 and 2019 with a weighted average rate of 2.56%. We are actively considering options to hedge a portion of our variable rate debt to mitigate uncertain market conditions. However, at prevailing interest rate levels, the interest expense savings would be marginal. CapEx, which is primarily due to capitalized software, is expected to be in the \$20 million to \$25 million range, which is approximately \$10 million lower than 2023, reflecting the offset to the capitalized labor change mentioned earlier.

Depreciation and amortization is expected to be in the \$40 million range. In summary, we executed against our 2023 objectives by returning to subscriber growth with a record adjusted gross margin and improved cost structure. While 2024 will be another year of transition, it is one where we are operating more efficiently and are strategically positioning WeightWatchers for the future. We believe by scaling clinic and executing on our expansion initiatives, we will drive another year of operating income growth in 2025, with momentum in revenue returning to the business.

I will now turn the call back to Sima.

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## Sima Sistani

*Chief Executive Officer & Director, WW International, Inc.*

Thanks, Heather. 2024 is not just a year of transformation, but also expansion. There is a lot to be excited about as we execute on a multiyear journey towards expanding care, access and payment options, all of which will reinvent our business and how people think about not only weight health, but also WeightWatchers.

Destigmatizing the conversation around obesity and amplifying the right to care and health equity are critical to addressing bias in public policy for the treatment of weight-related disease. I'm thrilled to announce that in May, together with Oprah Winfrey, we will be hosting an event on weight health. The event will feature industry experts coming together to unchain our relationship with weight.

Oprah is an inspiring presence and passionate advocate both for our members and for society at large, in elevating the conversation around weight health. While I and the rest of our Directors will certainly miss her in our Board meetings following the end of her current term, she remains a strong strategic voice and collaborator with WeightWatchers.

In addition, she continues to be an incredible advisor and thought partner for me, and I could not be more enthusiastic about our upcoming event and her vocal advocacy in addressing this critically important topic. Thanks for joining us. We are now happy to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] We will pause momentarily to assemble our roster. Today's first question comes from Nathan Feather with Morgan Stanley. Please go ahead.

**Nathaniel Feather**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey, everyone. Thanks for taking my question. Can you provide a bit more color on the incremental traction you're seeing in the clinic business since the mid-December launch and the key drivers of that? And then how are the subs that come into that channel behaving differently from those that came in through Sequence?

**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

A

Hi, Nathan. Thanks for the question. I'm going to start from the top and I might need a clarification on the second part of your question. So, yeah, we're really encouraged with the clinical performance that we saw strong at first year and our – with this new offering and 22,000 net adds in Q4. So, we've nearly tripled the subscribers since we announced the acquisition and there was a lot of visibility from that clinic launch, a lot of PR that we saw coming into December and that continued on through the rest of – that has continued on through Q1.

The – just to be clear, though, so the WeightWatchers Clinic is now what Sequence what – once was. So in terms of the acquisition, it is similar. The difference is that we now have a tab within the WeightWatchers app and that tab is accessible to all active members. And as we mentioned, 20% of the members that we are acquiring to clinic are from conversion of current core members choosing to upgrade to the clinic. And I think that's really exciting to see that we can provide this personalized high touch support to people who are realizing that behavior change alone is not going to be enough for them.

And we've done all of this in just eight months since we acquired Sequence. We combined behavioral and medical weight loss solutions into one integrated member experience. And there's a lot more opportunity to make this even more holistic, and we plan to execute that as part of the Project Expansion that I mentioned. I'm not sure if that answered the second part of your question.

**Nathaniel Feather**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. That's very helpful. And one more, if I may. I guess, what is the retention you're seeing on the subs that are now rolling off the 10 month commitment plans from kind of late 2022 and early 2023? Are those showing LTV dynamics you expected?

**Heather Stark**

*Chief Financial Officer, WW International, Inc.*

A

Thanks for the question, Nathan. So we are seeing improvement in retention in aggregate as we look at our behavioral members. It's now approaching 11 months up from approaching 10 months in the prior year. So yeah, the longer term commitments are reading through into that improving retention.

**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

A

Yeah. And I just want to add to that that we, you know, a lot of the major improvements that we made on the product side, as you know, rolled out later in the year. So we've had less time with that cohort, but the green shoots are there and we're already seeing it in activation and NPS.

**Operator:** Thank you. The next question will come from Jack Wallace with Guggenheim. Please go ahead.

**Jack Wallace**

*Analyst, Guggenheim Securities LLC*

Q

Yeah. Thanks for taking my question and thought you gave a lot of great information in the prepared remarks. So thank you for that. I wanted to ask about the B2B business, particularly as you're in discussions with your current and prospective customers around plan design and a couple of parts here.

One, what are your customers saying in terms of the breadth of services around and members being able to access weight health programs and then thinking more specifically about the clinical offering? How are those plan partners thinking about covering GLP-1 category? And are they, almost always requiring a gating factor which would be participation in any clinical or behavior change program? Or if not, how are those discussions evolving? Thank you.

**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

A

Yeah. Thank you so much for the question. So, yes, the employers and payers we're talking to, they're looking for partners, first of all, who can be trusted and recognized by consumers. I obviously think that this is a core differentiator for us and on the employer side, particularly, they're getting a lot of asks from their employee population that this is an important aspect, benefit that they're looking for.

We are seeing increased interest in our behavior change program and additionally a real focus instead of – sort of step care, rather a focus on adherence to improving the outcomes by adopting the behavior change program alongside medication access. So, that's what they're looking to really achieve is a higher ROI by combining a best-in-class behavior change program with high touch clinical care.

So they want to include the virtual clinic, but also keep flexibility to allow their employers – employees if they want you to, to also use their own physicians. But they really are very interested in the behavior change aspect of our program. Now, the other thing that I would add is that employers and payers want to ensure eligibility for prescription treatment plan that is based on FDA criteria, and that is something that we are in full agreement with.

And I guess, finally on this point is we are also, as you can imagine, seeing interest in value based payment models. So yeah, we are really encouraged by the conversations that we're having on this front and more to come.

**Jack Wallace**

*Analyst, Guggenheim Securities LLC*

Q

Great. That's really helpful. Thank you. And then, just thinking outside of the B2B market, but sticking with clinical, the patients that you're ultimately targeting, onboarding and serving, if you were to stratify the market a bit, folks

that are looking to get convenient or cheap access to medication or rapid weight loss versus those that are maybe looking for a more permanent solution that you can be aided by the GLP-1 category?

Can you just help us get a better understanding for when you are reaching out and targeting new subscribers, how do they typically fall into those two buckets? And maybe it's more of a scale. My hunch here is that, there's a large enough cohort, a large enough segment of the market that there's plenty of serviceable demand that can be sustainable for the B2C clinical business. Thank you.

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**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

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The B2C portion of our business remains critically important, and I think that that is something that we are clearly showing our ability to scale. And we're really encouraged by the progress we're making on that front and mostly from our current membership base. As we mentioned in the prepared statements, 70% of the clinical members have been at one point a WeightWatchers member. And I want to take a step back because from a – let's call it, reasons to believe or value and what we provide, it's not the prescription; it's the care.

We're dealing with people who have been going to primary caregivers about their weight for years have been told the same thing, eat less, move more. And our clinicians participate in a 12-week specialized onboarding period which includes rigorous training, close oversight by our clinical leadership team, comprehensive performance reviews to ensure that they have competency in obesity care and nutritional knowledge and empathy to guide members on this journey.

And that's an important differentiator, is that we are coming with full spectrum medical weight loss and that is something that is going to require a high touch experience to have the best outcomes and we have the – we're looking at our customer satisfaction and our NPS and that's driving a lot of the acquisition is people just having a great experience with our program. And so, that's how we are going to market right now is speaking to the fact that what we're offering is great care and a membership that is going to help them with their weight health.

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**Jack Wallace**

*Analyst, Guggenheim Securities LLC*

Q

Thank you.

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

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**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Good evening. Thank you so much for taking my question. Two-part question. How are you thinking about, as you lap some of the aggressive discounting and promotions that have been taken as a way to extend the life of the subscribers, how are you thinking about subscriber growth as you lap that. Do you expect that you might have to further push promotional actions in order to drive subscriber growth?

And then my second question is, what is the longer-term vision? Is it to get some of these subscribers that you're gaining now from some of the more aggressive actions to eventually convert them to WeightWatchers clinical members? And that's going to be the means from which the organization can get growth? Thank you.

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**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

A

Thanks, Michael. So yeah, we are making pricing and promotional decisions to make sure that we're managing total LTV acquired and really leaning in on that. So we are expecting in our assumptions this year to maintain similar LTC and promotional activity year-over-year and have sort of consistency in that pricing year-over-year. So, we expect to be showing stability and potentially growth in our subscriber base as we've guided to from that activity. And don't expect to be moving towards deeper discounting.

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**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Okay. My final question – yeah, sorry.

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**Heather Stark**

*Chief Financial Officer, WW International, Inc.*

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Sorry. And then on – sorry, the conversation about the conversion into clinical. And as we look to gain and expand the subscriber base, importantly from the prepared remarks that Sima shared, the growing core consumer base provides recruitment into the clinical base as well as – as we shared 20% were coming from current core subscribers moving into the clinical part of the business. So we see growth coming from in there.

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**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Okay. And my follow-up question is, given the intentional decision to moderate clinical subscribers in light of some of the supply constraints related to the GLP-1 drugs, how do you see that playing out from a competitive standpoint? Is it your expectation that some of these competitors are going to potentially go away and that will put WeightWatchers in better position to attract clinical subscribers when supply improves because the competitive landscape is only growing more intense by the day. In fact, obviously some of the pharmaceutical companies are going direct to consumer to offer these medicines themselves now. Thank you.

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**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

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Yeah. So, I mean, we are still very optimistic about 2024 and the supply improvements that we expect to see and that has already been noted by some of the pharmaceutical companies and we've been able to really lean in on our wide formulary and with our focus on weight health to continue to grow the business even in a supply constrained environment. And so, look, I think that it's based on the new scripts dispensed and our subscriber growth that we're taking share in this market. And we're doing that with absolutely no use of compounding. And I have every reason to believe that our growth will be aligned to the supply opening up as well.

And just in general access, insurability is going to be really important and that is something that is really holding people back from being able to get the care that they deserve and we are leaning in on our right formulary in the meantime to help people with medical weight loss who really need that service for their chronic relapsing condition.

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**Heather Stark**

*Chief Financial Officer, WW International, Inc.*

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And Michael, I just want to add back – Michael, I wanted to add back on your first question on the long-term commitment pricing, just to put a point on it that we're – the things we're doing, we believe are stabilizing the LTV of subscribers with these longer term plans and setting up for the clinic expansion, as I said. But I just wanted to share that we do believe that LTV has stabilized and we will be slightly higher even in later 2024 too and is expected to drive the total subscription revenue growth that we've shared starting later in the year.

**Michael Lasser**

*Analyst, UBS Securities LLC*



Thank you very much.

**Operator:** The next question comes from Alex Fuhrman with Craig-Hallum. Please go ahead.

**Alex Joseph Fuhrman**

*Analyst, Craig-Hallum Capital Group LLC*



Hey. Thanks guys for taking my question. I was wondering if you could give us an update on what you're seeing in terms of your incoming members on the clinical side for insurance coverage? I think in the past you talked about a little bit fewer maybe than half of your customers or would be customers rather, getting insurance coverage for the name brand GLP-1. How has that trended over the past few months?

**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*



So – thanks, Alex. This is – so I believe what you're asking about is our insurance engine. And so, yes, look what we're doing – we're trying to help where we can for those who do, who are insured and we see 40%, 45% of our members that have prior ops submitted are getting one approved. And this is about 5 to 7 percentage points higher than what we mentioned in our third quarter call. And the drivers of that are really that Zepbound coming to market and is helping obesity indications get approved. The increase in Saxenda approval rate and then third is really our tech platform. It continues to get smarter and we're able to increase the amount of PAs we can file for members.

**Alex Joseph Fuhrman**

*Analyst, Craig-Hallum Capital Group LLC*



Okay, that's really helpful. Thanks very much. And then, it sounds like you had a tremendous response to the 10 month – \$10 a month commitment plans that you were offering throughout most of last year. Can you give us a little bit of an expectation of, what you're expecting in terms of churn when those members start to see their rates go up from \$10 to \$23 a month, which I imagine is going to be happening, in one at a time, kind of starting in the spring. I'm curious if you've seen, any big contingent of members already kind of hitting that rate increase and just what your expectation is in terms of churn through the rest of the year?

**Heather Stark**

*Chief Financial Officer, WW International, Inc.*



Thanks, Alex. Yeah. So we've had that plan running since earlier in 2023. So, we've now got some experience under our belt with people coming off that plan. And as I shared in one of the earlier questions, we're starting to see revenue – sorry, retention expansion coming from this and it's now approaching 11 months. We're also seeing obviously with such a significant shift in members in commitments that our average committed months are expanding as well.

So I think in Q3 we shared average committed months were about 7.6 months and now it's increasing to 8.6 months. So that expansion is happening, and I don't – we plan out churn, obviously, but we now have enough under our belt with this and experience in this that I think we've got the rest of the year mapped out well, with using this promotional offer.

**Alex Joseph Fuhrman**

*Analyst, Craig-Hallum Capital Group LLC*

Terrific. That's great to hear. Thank you very much.

Q

**Heather Stark**

*Chief Financial Officer, WW International, Inc.*

Thank you.

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**Operator:** Today's last question comes from Stephanie Davis with Barclays. Please go ahead.

**Stephanie July Davis**

*Managing Director, Barclays PLC*

Hey, guys. Thanks for taking my question. I wanted to talk a little bit about the B2B opportunity. There is a lot of employer concern about, prescription costs for GLP-1s and especially from self-insured employers. So how are you positioning your solution so as not to exacerbate some of these peers, while still taking advantage of the need for weight loss solutions within that cohort?

Q

**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

Thank you. So, yeah, I mean, we had a third-party actuarial firm model that shows that for employers that cover the GLP-1 medications and implement our full program, that it would result in 3.9 times ROI, and I think, it's really important to have those lighthouse clients that we can partner with and really show these outcomes as proof points.

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And so that the employees, they are asking for weight health and this is a matter of bias to not – in my opinion, to not provide that level of care. And you're seeing what's happening in North Carolina now with the state plans decision, it's – this is something that the employers and the payers are going to have to wrestle with. And the way to manage those outcomes is to ensure that the medications are taken in conjunction with lifestyle intervention.

That is what is going to drive the long term ROI. And, you can imagine we have a lot of these employers and payers really coming and looking for a partner who is trusted and recognized, who is going to help them navigate this landscape and be able – they want to provide this benefit and to be able to do it in a way that is cost efficient. And I think that we're the best partner to help them with that.

**Stephanie July Davis**

*Managing Director, Barclays PLC*

And maybe, I guess dovetailing on that last comment, it is a pretty competitive environment with folks like [ph] Armada and Brda (00:55:53) and Calibrate. So how are you differentiating yourself when you look at these head to head, and are there any win rates or any early color you can tell us about the successes you've had on the call?

Q

**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

Well, the main things that – that we hear, as I mentioned in the prepared remarks, is around the science, the brand equity and the engagement. On the science we have a large – the largest dataset, and it's giving us the

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ability to then report back with regard to the phenotypes of their employee population and to really just put them into the right pathway for the best success for that employee.

And then on the brand equity side is really, again, trust, compliance. These are going to be of paramount importance to – with regard to clinical protocols, and that is something that they have come to expect from WeightWatchers with the 60 plus year track record and then engagement.

We have a great product that works and that there's a ton of brand recognition for and that their employees want to use and provides this level of community care and high touch support. And so ensuring that if they have to do it in conjunction and say you must use this behavior change alongside medication access, that it is a behavior change program that is joyful and that is easy to use. And that is something that we have proven to do. And so the combination of these three factors, I think, are really a differentiator for us, not to mention our ability to scale.

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**Stephanie July Davis**

*Managing Director, Barclays PLC*

Super helpful. Thank you.

Q

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**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

Thank you.

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**Operator:** This concludes our question-and-answer session. I would now like to turn the call back over to CEO, Sima Sistani, for any closing remarks.

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**Sima Sistani**

*Chief Executive Officer & Director, WW International, Inc.*

To reiterate, we are on a track to deliver year-over-year growth in subscribers, subscription revenue, gross margin and operating income. 2024 will be a critical build year as we work to further catalyze our growth and mission as the global leader in weight health. We are confident in our plan.

We feel good that the guidance we are putting forward, including our investments in growth and that we are executing on the right initiatives for the long-term health of our business. We look forward to speaking with many of you at upcoming conferences and events, including at the Morgan Stanley TMT Conference in San Francisco next week and the BMO Obesity Summit in New York City later this month. Thank you.

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**Operator:** The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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