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PRESENTATION

Chris Ferrara - *Bank of America/Merrill Lynch - Analyst*

Welcome back to the conference, we're thrilled to have Herbalife here back at the Merrill Lynch Consumer Conference. It's our Bank of America Merrill Lynch Consumer Conference. This has clearly been an unrivaled growth story. Since the Company came back public in '04, volume points have put up a 13% CAGR, sales a 15% CAGR, and EPS a 35% CAGR. Fueling that growth has certainly been the adoption of the nutritional club concept more recently.

Shares are up 30% year-to-date, over 70% over the last year. And here to present for Herbalife is Chief Financial Officer, John DeSimone. John joined Herbalife in 2007 and was elevated to the CFO role at the start of 2010; has been instrumental in driving growth in both new and existing markets, as well as in the Company's drive to bring manufacturing back in-house. I'll turn it over to you, John. Thanks.

John DeSimone - *Herbalife Ltd. - CFO*

Thanks, Chris. I see a lot of familiar faces in the crowd, so I think maybe the best approach is get through the presentation somewhat quickly and go to Q&A, right. I mean the presentation is designed to be more foundational to talk about what's driving our growth, it's a story that's -- the same story we've been telling now for a couple of years, just backed by a couple years of strong financial growth to validate the model. So I'll try and get through this quickly and then we'll go deep wherever you all want to go deep.

Safe Harbor statement, this is on our website. Tend to tell the story in buckets. And the first -- this first page really lists five buckets, the first critical, the products, the products are very relevant, they adjust a real need that's out in the marketplace and they are a product line that really fits this new daily consumption model that I'll talk about in a minute.

So first takeaway, the products are relevant, fits three mega trends that we'll talk about in a slide or two. Secondly, and probably most important is that our growth is being driven by a new distribution model that's been tested and proven in a number of our countries that is now being globalized.So, it's just the expansion of that method fits well with the product, but it's expansion of the method that is the key driver of growth for the Company.

Third, all direct sales, it's important for sustainability to have a strong brand. We have a strong brand and it's continuing to strengthen. Fourth, of course, strong financial performance there. Chris can give that presentation, he already did a better job than I could. And then, lastly, the model generates a lot of free cash, right. Free cash and net income are about equal to each other in this model, and we return about all of our net income to our shareholders through a buyback or a dividend. We do overweight at the buyback because we are a growth Company. I have a slide or two on that too little bit later.

So back to the first point, three global mega trends that our products address, obesity and it's more than just obesity, right. Obesity is a subset of what our products address. Our products address weight management, the need to control somebody's weight and you don't have to be obese to need the product, right and one of the examples we use is in China, 5% of the adult population in China is obese, but 22% is overweight and it's the second fastest rate of obesity growth in the world as Western diets spread east. So there is still a need for the product, even though in investors' minds, China isn't an obese nation, but it's getting there.

Anti-aging, I mean aging population, that fits in our sweet spot too and underemployment, right. So our products and business model combine to offer people a business opportunity. Generally it's for people who are underemployed, looking for a supplemental income, it can lead to a full-time income if a distributor chooses to do so.

One other note that's not really on here. But in 2011, the World Health Organization said, it was the first time that more people died being overweight than being malnutritioned in the world. So again, it's just another fact that supports the need for weight management products.

A little bit of a product profile for the Company. You can see that the big piece of this pie is weight management. I think it's important for those new to the story to understand that weight management for us means healthy nutrition, more than it means, it's not a magic pill, we don't chase that supplements fad that, take a pill, don't eat for 30 days, it's all about healthy nutrition, healthy weight loss. About half of that product, the weight management category, which represents 62% of our sales, half of that comes from Formula 1 which is a meal replacement product, it's our core product, it was the founding products of the Company, it represents 30% of sales. You will see some market share information on the next slide. And second in that category which represents 12% of market share -- 12% of our sales are herbal teas, so caffeinated teas. And then aloe, which is our third biggest product, which is in the targeted nutrition category, represents 10% of our sales.

So those three products combined represent 50% of our Company sales in one form or another, there is many flavors, but in the broad sense, those SKUs represent 50% of our sales and the reason they represent such a high percentage of our sales are they are the driver of the new distribution model that I'll talk about in a moment.

Market share on meal replacements, in 2005, this is worldwide market share, comes from Euromonitor. In 2005, we had 22.6% of the category; in 2010, we had 33% of the category. The second largest market share player is Unilever with Slim-Fast. To talk about the model for a moment, the distribution model, there is traditional direct selling and then what we now call daily consumption and we actually think it's a reinvention of direct selling and I'll dig a little deeper on the next slide, but one of the key takeaways if not the key takeaway, is that daily consumption allows for frequent interaction between the customer and their distributor.

In direct selling, most direct selling models, if not all of the direct selling models, it's a very infrequent contact point between distributor and customer, and daily consumption is a very frequent contact point. And I will talk about the benefits of that. It also means you're seeing your customer more frequently, but you're asking for smaller purchases instead of larger purchases. And it's very efficient for distributors, because as you learn the model, you'll see customers are now coming to distributors, instead of the other way around. So you find your customer through a push model, but once you find him, it's now pull, they come to you.

How does it work? Why is frequent interaction so important? As a weight management company, product compliance is critical to having a product success. Product compliance is enhanced by frequent interaction. A lot of consumers don't have the discipline to stick on a program, but we have a frequent interaction with the distributor who helps you create that compliance, that discipline to use the product properly.

That leads to a product result which is a very objective product result. I mean you either lose weight or you didn't; if you lost weight, you know, everybody else knows, it's very objective. That leads to both to long-term customers. You have an objective result, an objective benefit, the product did what it was promised to do, that creates credibility in a long-term customer; that also leads to more customers coming into the franchise and I'll cover this in a couple of slides, but we have these -- the clubs, the daily consumption models, 60% of the consumers in the US clubs, have gotten into the US club through a reference from another consumer who had a weight loss experience, they had a product result. So word of mouth, when you have a product result, it's significant.

Talk a little bit about the -- to put some numbers around the opportunity, we look at volume points for capital as a penetration metric. Volume points for capital, think of US retail sales, absent currency or price increase. So in volume points in a comparison is a pure measurement and so it looks at volume change. In Mexico in 2003, volume points were 1.2 volume points per capita; last year, it was 6.2; that growth was driven from daily consumption. So it shows that daily consumption drives a lot of opportunity, 4X growth or 5X growth.

In the US Latino market, it grew 5X, it launched clubs in 2006. Taiwan has gone a little more than twice it launched clubs in 2007, Korea in 2008 and so forth. So there is a lot of opportunity left because most of our countries now are just starting clubs or just starting daily consumption. The benefit

-- I'll go a little bit into daily consumption. Daily consumption is effectively, or clubs anyway, which is the predominant model within daily consumption, allows a consumer to come to a fixed location and buy just (technical difficulty) they need for that day in a single-serving format, right.

Think about coffee, when somebody buys a cup of coffee, they go to Starbucks, they buy just what they need for that day, it's a $2 cup of coffee. Somebody just do it for me and it's very convenient, at a very accessible price point. What clubs have done for Herbalife is, it's breaking down that monthly purchase which you may do once a month and let's say, for the three core products that we mentioned, the three that make up 50% of our business, that might be $100 in the US.

Instead of asking a consumer for $100 or $120 or whatever it might be, you're asking for $3 a day or $4 a day. Same price in total, but a much more accessible price point because it's broken down to just what you need for that day. So that's the first benefit. The second benefit and equally as important is, the proposition is one of us of a meal. It's a replacement spend, not a discretionary spend. These three products combine for an Herbalife meal being sold one meal at a time. So what the distributors are asking consumers to do is, don't spend the money at McDonalds, come and spend it at Herbalife. It's actually a trade down economically.

You can save money. It's positioned as an economic savings with a nutritional benefit. Instead of a discretionary spend, as much -- many products in the supplement category, generally considered. So that's a second benefit. The third is the objective results drives compliance, drives credibility, drives brand strength, leads to the fourth, which is all the people coming into the brand and there is a huge socialization component in the club that keeps it sticky because so many people find clubs through other consumers. You'll see if you go to visit a club and Amy is more than willing to arrange club visits, you'll see that people tend to know each other because they found the club through somebody they knew and they needed the club and that socialization keeps it sticky.

And then, the fifth benefit which is more of a silent benefit which is when a distributor has a fixed location for which to go to work, they tend to have more success, it creates a discipline that's not always available in direct selling models. When a distributor comes into direct selling, they're motivated that day, they tend to lose that motivation over time, many do, because they don't know what to do. They don't have the discipline to wake up in the morning and just know how to be successful.

When you have a club, it's the equivalent of having a job, it helps you know what to do to be successful. So those are five core benefits of daily consumption. They make it unique and sticky. A little bit about the demographic profile of consumers in the US. 50% of the consumers in the clubs in the US are under 35. This is from a study done in 2010. We will update it in 2012. 40% are between the age of 35 and 54; 60% female, 40% male. 40% of the consumers have full-time jobs, 20% part time, 30% are homemakers.

I think this slide is maybe even more telling. 50% of the consumers go to the club every day that it is open. Additionally, 50% of the consumers spend more than $75 per month on take-home product, that's in addition to the three product they bought as a meal, right. That shows the strength or the credibility that's being built with the brand through daily consumption, that people are willing to buy other products to take home. And then, 40% have attended more than one year. So there's stickiness there and that creates a successful distributor and a very sticky distributor. And our retention rate of distributors in 2011 was 52% which is a record for us. We think it's a record in the industry. We're not sure because most direct sales don't disclose retention rates.

To put it in perspective, historically, in 2003, before club started in any market, the retention rate for our distributors was 28% -- 28.1%. Last year, it was 52%, driven primarily by the introduction of daily consumption. The cycle maybe you think of for daily consumption, there is an inception period which is -- this is by market and in some cases by city. When a group of distributors accept the concept, test the concept and try to find out a way to make it work in their community, that generally takes two years. Then, there is a rapid expansion period.

Once they have success and they know which model works, that's when there is rapid duplication, that's the expansion period and then in Mexico, for example, we see them in category three which is the enhancement period which is how do you become more productive, how do you get more share of wallet, average ticket to increase for the customers you have already coming to your club. Most of our markets are in that inception or even pre-inception period that we're just now beginning to consider clubs. We think through different kinds of analysis, about 35% to 40% of our business is coming from daily consumption. So there is still a big opportunity left for us, a lot of runway left.

A little bit about the brand. We brand through sports, we brand through an identity of a healthy active lifestyle. We do a lot through soccer because it's a global sport with lots of reach and we are a global Company. But we do some other branding activities. We sponsor 200 athletes around the world and we have 72 Casa Herbalifes. Casa Herbalifes are charities in which we provide good nutrition to underprivileged children around the world.

A little bit of a sports line, we launched a sports line, it's really early in this launch period. There are seven SKUS, they launched in full -- partial launch in May, full launch in September or November in the US. It launched in Europe in Q4, it's still not in a lot of countries, but it really is reaching out to a new consumer. It is a long-term opportunity, not a short-term opportunity, but it does create brand credibility with our athletes.

For all the sponsorships that we pay for, most of those athletes don't need weight management products, they need sports products. So they were wearing our brand but not necessarily using our brand. And now, we've given them products that they can use that authenticates that sponsorship. So longer-term opportunity, because it's not in our distributors' DNA, to sell sports, they're going to have to learn how to do it. We'll create distributors who maybe weren't interested in sports -- in weight management products to come into the franchise. We're seeing some of that, but it's still in the early stages.

Little financial update. Volume points, again volume points is a proxy for volume. So don't worry about the number, but worry about the change. In the full-year 2011, volume for the world was up 21%. Five or six regions were up double-digit. China was up 7%, although double-digit in the fourth quarter. Very broad-based growth, as this model of daily consumption expands globally. Average active sales leaders. This is a measurement of distributor engagement. Direct sellers grow through driving distributor engagement. It's a push model. There's a pull component through the clubs after you find the initial consumer but they drive through a push model.

We measure push models through engagements or the people doing the selling. We measure, what we call, average active sales which is how many sales leaders are ordering product in that given month. And this says, there is 24% more people ordering products in Q4 this year than last year. So the leading indicator of engagement, which is a leading indicator of volume. It's a measure that we in the past hadn't disclosed, we always disclose new sales leader, new is maybe at a time in our evolution with the property metric disclosed, new doesn't tell you the quality of that new person. It doesn't tell you who is coming in, but then leaving the next month or leaving two months later. We disclose now who's not -- we also give new, but new isn't the most important component. What's most important for us from a distributor metric is who is working in the business and we made that available to investors two years ago.

It's another, I think, differentiating point for us versus other direct sellers. You can see in the grey section of this pie, that's the emerging markets, which represent just over 50% of our business and we're up 26% last year. And when you go to our established markets and this is not our stats, this is based on World Bank's definition of high GDP per capita markets. Established markets represent just under 50% of our business, but still grew 16%. Most direct sellers are growing in emerging markets, they're not in established markets. This daily consumption model is addressing a whole new consumer segment that wouldn't participate in a product under traditional direct selling and therefore, it's allowing us to grow in established markets also.

Net sales. Net sales increased 26% last year, 23% on a constant currency basis. We always provide constant currency information because we are a global Company; currency does have an impact on our transactions and translations. We make a lot of information available to investors to be able to measure that. We've put constant currency P&Ls on our website and we talk about on conference calls and it's relevant.

Our EPS is reported and adjusted, not a material difference between the two. We have pretty clean earnings reports and we reported $2.37 in 2010, $2.42, $0.05 difference on a non-GAAP adjusted basis. That went up to, on a reported basis, $3.30 and on an adjusted basis, $3.31. So between 35% and 40% growth on EPS, either way you look at it, reported or adjusted basis.

Guidance for the first quarter 2012, we are looking at volume point guidance of 10.5% to 16.5%. Net sales were slightly below that because of the headwind on currency. We provide effective tax rate guidance, CapEx which we tend to spend over a longer period of time, about 3% of net sales and that gets you to an adjusted EPS for the first quarter of $0.76 to $0.80, for the full year, $3.40 to $3.60. Last year, it was $3.31; this year, on a constant currency basis, we have a $0.31 headwind, meaning we would have $0.31 more in our guidance if currency rates were exactly the same as last year on an average basis. Also, this guidance was based on the average rates for January, rates are a little better now. We've provided information about the sensitivity of rates on our conference call, which was a couple of weeks ago and we will give more in our Investor Day which is in two weeks.

And then, I think my favorite slide, this is cash flow. I talked about this in the opening. Our net income since 2007, $1.3 billion; our free cash after CapEx, $1.3 billion. Actually slightly higher than net income, despite material growth in the business. So the model generates a lot of cash. We're not very M&A oriented. So we return a lot of that cash. Virtually, all of that cash to our shareholders through a dividend or a buyback. We return 98% of that net income number to our shareholders since 2007 and we've done that while reducing debt or net debt. Okay. So we're doing it through cash from the business. We can use debt to lever up when we have to, but overall we're just taking the cash that's generated from the business, returning it to our shareholders and we expect that to continue.

Little bit about the balance on how we return money to our shareholders. We have -- we overweight the return in total buyback because we are a growth Company. We have purchased since 2007 a little over $1 billion in stock and repurchased a little over $1 billion in stock. Most of that was done at an all-time high at that moment; yet, at this point, the average price of our buyback has been $24.05, because we're a growth company.

So as we continue to have this growth profile, buying back stock is the best way to return money to shareholders. We do it in a very routine manner. So it's predictable. We have the ability to lever up if we want to, but there is a routine piece that's very predictable. And then, we do a payout ratio. Look, not a payout -- excuse me, dividend ratio look, it isn't a yield look, not a dividend payout look because we look at the buyback as an element of returning money to shareholders. We think our payout ratio is 100%, it's just what goes to dividend and what goes to buyback.

We try to keep the dividend yield, kind of in the average S&P range, right. So there is a dividend for those that feel it's important for those investors, that feel it's important. But we do overweight the buyback, the return to shareholders to buy back. Our growth profile changes, we always have the ability to switch that.

And then, just sustainability, we've had since 2004 through the midpoint of our guidance through next year there is a 13% CAGR. So it's happened over a long period of time. And then, just to recap, the products are relevant. Growth is being driven by the new model. Strong brand, strength in brand, good financial performance. And what we think is a shareholder-friendly approach to returning money.

And that's the opening remarks. and I know I hit it pretty quickly, I think we'd open it up for questions.

Yes.

QUESTIONS AND ANSWERS

Unidentified Audience Member

35%, you believe, of your sales are daily consumption?

John DeSimone - *Herbalife Ltd. - CFO*

35% of our -- 34% to 41% is the way we look at it. So you can narrow down 35% to 40%, somewhere in that range. It's not an exact science, all right. We're selling through independent distributors and we're making -- we're doing analysis to determine what model they are using based on their ordering patterns and other market-specific information. So if you look just at ordering patterns and if a distributor is ordering from us at least three times a month, we say, okay, that means they're having frequent contact with their customers are running daily consumption.

We know that's not accurate in some markets like Russia where there is not a strong shipping infrastructure and people have to order less frequently in bigger quantities even though they're doing daily consumption. That comes to around 34%. If we just look at ordering patterns, if we take it deeper and look at our top 10, actually the top 12 markets, we said, okay, in addition to just that, let's look at other qualitative-type metric to determine how much we think each market is doing daily consumption and then take the rest of the countries and you just apply the ordering patterns and that came to 41%. So we are somewhere in that range right now.

Unidentified Audience Member

And does that include the sales that are through clubs from daily consumption customers, but are at --

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John DeSimone - *Herbalife Ltd. - CFO*

Take-home, yes.

Unidentified Audience Member

Take-home, it includes the take-home, how significant is take-home? It sounds like it could be a quarter of that or something, right?

John DeSimone - *Herbalife Ltd. - CFO*

So the take home is significant to the profitability of clubs and sustainability of clubs, right. There is a certain volume point average a club has to do to cross over kind of the go, no-go line, okay. That's somewhere around 3,000 volume points per month. I know you're not familiar with volume points, but that's how we manage it, right. To get the 3,000 volume points per month, you have to have some take-home sales, okay.

If you really want to have a club that's doing 5,000, 6,000, 7,000, 8,000, 9,000, 10,000 volume points a month, you have to have take-home sales. So it is an important element of the model, it doesn't contribute as much as the three core products because the three core products, the Formula 1, the tea and the Aloe, they have been growing at twice the rate of the Company. So there's still an overweight to all those three products because the meal -- that meal concept is still driving growth. But take-home is still an important part of the long-term success.

Unidentified Audience Member

So do you know how much of sales is take-home through for daily consumption customers?

John DeSimone - *Herbalife Ltd. - CFO*

Do we know?

Amy Greene - *Herbalife Ltd. - VP, IR*

No, we do not.

Unidentified Audience Member

All right.

John DeSimone - *Herbalife Ltd. - CFO*

I don't know.

Unidentified Audience Member

And do you think that you're going to improve the information gathering so that you (multiple speakers) --?

John DeSimone - *Herbalife Ltd. - CFO*

We will certainly improve the consumer research. We did our first one two years ago. We're going to update it with better research again and we will always evolve on the research side. We don't have direct visibility into consumption, all right. What we have is a very robust set of metrics for distributors. We are actually going to let people, investors see the type of metrics we have at Investor Day in two weeks, okay. You won't see the number, you'll see the type of metrics.

We will walk you through the system. We have a lot of visibility into distributor performance, whether it's engagement performance, whether it's there, the retention rate of their organization, the engagement rate of their -- there is a lot information that gets us comfortable directionally as to how the business is going, but it's not an exact science, it's more of a puzzle because we don't have direct consumption of that, there is no retail link, there is no IRR and unlikely to get there.

Yes.

Unidentified Audience Member

I think you showed China was up 7% last year. Why isn't it growing faster and how big could that be for you eventually?

John DeSimone - *Herbalife Ltd. - CFO*

So China wants a different model. It's still doing clubs. It's learning to do clubs, it's in its infancy with clubs. I think the club model will work really -- works really well into the regulatory framework of China because China likes sales to come from fixed locations. That's why if you're not going to sell it from a fixed location, you need a special direct selling license. So a club is in fact a fixed location. Distributors doing club have to register with the government, the government likes the concept of -- well, I shouldn't say they like it, but it fits the landscape better.

I think the concept is selling products one meal at a time in China adds a lot of value. The challenge for China, at least with modeling China for us is that it's a closed country with a different marketing plan because of the regulations in that country. So distributors teach distributors how to do clubs. Distributors are not allowed to go into China and teach. So the distributors in China are trying to learn clubs from the Company that takes a little bit longer.

So A) it's a more difficult regulatory framework, B) it's a closed market. So we're just cautious when we discuss China, I think in the short term. I think in the long term, it's a great opportunity. We know Amway does a couple -- we think a couple billion dollars. A lot of which are in the meal replacement category, nutrition category in China. I think it's a big market, I think it's a good consumer for us. It just has extra risk to it than some of our other markets are down, so we're being cautious.

Amy Greene - *Herbalife Ltd. - VP, IR*

And one of the interesting things about China, I think to some extent, people overlook the need for the products in China. The 5% of the adult population in China is obese, but 22% of the adult population is overweight and so there is a real need for a 200-calorie meal replacement shake. It has a place in the market. So the opportunity set is there. The clubs are starting to work and we are waiting to see when that inflection point is.

Chris Ferrara - *Bank of America/Merrill Lynch - Analyst*

Yes.

Unidentified Audience Member

Can you talk about pricing and what reasons do you think to take pricing and the pricing dynamics you have?

John DeSimone - *Herbalife Ltd. - CFO*

So we don't talk about pricing, or at least what's coming on pricing because we do not want our distributors to hear from an investor presentation what's planned. Okay. So until we announce pricing to our distributors, we'll not announce it to investors. There are some markets where we are planning to take a price increase. In the US, we did just take a 2% price increase which we did announce. In other markets, there are price increases planned, it's all situational. We try not to -- we definitely do not price off of currency, we price off of the economic situation in a country.

Amy Greene - *Herbalife Ltd. - VP, IR*

But globally, from a modeling standpoint, you could think that 2% to 4% per year would be a number that you could use, but we do it very surgically, I mean as we need to -- if we need to take price from an inflationary standpoint and that we think from a consumer standpoint that you can, then we will in certain markets where it's necessary, but then in other markets, we may wait a year or so.

Chris Ferrara - *Bank of America/Merrill Lynch - Analyst*

Yes.

Unidentified Audience Member

Manufacturing, can you give us an update, how far are you and what are the results?

John DeSimone - *Herbalife Ltd. - CFO*

So we [notched up] manufacturing around 25% of our -- in our nutrition product. Our goal is 60% to 80%. So that gives you a view of where we are. There's really three, maybe four components to ultimately getting to that 60% to 80%. So first was the manufacturing facility that we purchased in California, that will -- that had ramped up on US product and now has started to ramp up on some Mexico product. There are some other international products that will go into facility, once the licensing requirements are complete. All right, every product, when you change manufacturer, has to get relicensed. The licensing lead-times are different by country.

But there is some room left in that plant, but not a lot. If you go back, that plant offers packaging and pressing and blending. If you go back a step to ingredient extraction of botanicals, which are plant extractions, so it's not soy, it's not vitamins or minerals but it's all the other botanicals, we are the -- we have built through the Chinese government an extraction facility that will start its first batch this week, sometime this month. I think it's going to be this week. So that's going to ramp up over the next four to six months. You won't see a benefit from that financially to a lag. The inventory that's generated from that facility turn, that takes a little while.

And then, really the next phase which we haven't discussed in detail is additional plants and the location of those additional facilities. But there will be additional facilities or at least additional manufacturing capability, it may be through a joint venture, it may be through align of a co-packer, or some -- there will be additional control that we will have over manufacturing over the next two to three years that will get us to that 60% to 80%.

Unidentified Audience Member

And is the result of this meeting your expectations or exceeding in terms of return on assets and return on investments and what do you -- and have you altered at all your expectations of the impact on ROA of the -- once the migration is completed?

John DeSimone - *Herbalife Ltd. - CFO*

In fact, the expectations haven't changed, but I will tell you that the motivation for doing this was not financial. There was a financial benefit. We had a 39 BIP improvement last quarter versus a year-ago quarter from the whole Seed-to-Feed strategy. The strategy is based in protection, it's based in -- we operate -- the biggest risk to our business is regulatory risk. Regulatory landscape is changing, it's getting more difficult, that can be an asset, right. It can create a barrier to entry that doesn't exist today. We thought to be credible when we represent our Company to governments that we had a self-manufacturing, you couldn't manufacture it through 20 (inaudible), we had to be the experts.

So that was one of the key drivers for Seed-to-Feed. A second is, in soy, in vitamins, minerals, lots of traceability in botanical extracts, lots of brokers before the ingredient gets to any manufacturer. By us taking over the extract, we now have complete traceability, we call it Seed-to-Feed, from the field to the distributor of not only the product, but the ingredients, right. So that's a component of what we think will benefit our credibility to regulators, so again protection. It turns out that there is a promotional strategy around that too; the distributors will activate around that concept because it's a point of difference.

But the primary reason for doing it was protection from a regulatory standpoint. In addition, there is a financial return, it's not a capital-intensive model, okay. The California facility we purchased for $10 million. We've put another $19 million into it, it can represent about 35% of our manufacturing needs. We're at 25%, so there's a little bit of room to go, it's not very capital-intensive. We've told investors that the fallout of the way we manage the business and what we can in fact implement from a capital standpoint is about 3% of net sales. And that includes mostly all the manufacturing initiatives unless we would buy another manufacturer, but that is still not very expensive.

So, a, it's not capital intensive; b, we know it was a financial return, we're already seeing it. The only thing that's changed in expectations is the amount of our needs that the California manufacturing facility is capable of handling, because the growth has exceeded our expectation. So, when we started the process, we said 35% to 40% of our needs to come out of a California facility, it's now down to 30% to 35% because the capacity hasn't changed, but the volume has grown.

Unidentified Audience Member

So just on a follow-up on that, the cash flow that you gave us included the slide on the cash flow for the prior -- how many years was it, seven?

John DeSimone - *Herbalife Ltd. - CFO*

2007, since 2007, so 2007, 2008, 2009, five years.

Unidentified Audience Member

Right. So that included the purchase and investments in California, right?

John DeSimone - *Herbalife Ltd. - CFO*

It included the investment, it probably did not include the $10 million purchase because that doesn't fall into CapEx, but you could adjust it by $10 million.

Unidentified Audience Member

And do you think --

Amy Greene - *Herbalife Ltd. - VP, IR*

But needs for Seed-to-Feed are within or inside of that CapEx guidance we gave you.

Unidentified Audience Member

Got it. Thank you.

John DeSimone - *Herbalife Ltd. - CFO*

The $19 million that we invested is in there. Just the actual acquisition of the facility, it wasn't for all the upgrades and all the equipment that's in there.

Amy Greene - *Herbalife Ltd. - VP, IR*

And anything we expect to do is within -- when you look at our CapEx spend, there is a -- outside of the maintenance portion, the remaining CapEx is almost equally halved between technology and manufacturing. So any initiatives that we look to undergo from a Seed to Feed or manufacturing is captured within our CapEx guidance.

Unidentified Audience Member

In what time frame do you get to 68%?

John DeSimone - *Herbalife Ltd. - CFO*

60 days, 60 to 80, that's my accent. I thought I was slurring words, I guess, but, it's 60 to 80 and it's another two to three years.

Unidentified Audience Member

Okay. So -- and in that period, you can generate free cash flow equal to net income, I think, right, is that what you're saying?

John DeSimone - *Herbalife Ltd. - CFO*

Yes.

Unidentified Audience Member

And so after that, free cash flow would exceed net income.

John DeSimone - *Herbalife Ltd. - CFO*

Correct.

Unidentified Audience Member

Thank you.

Unidentified Audience Member

Looking at the evolution of the financials, you've generated EBITDA margins ranging from like 15% to 17% up in 2010, and then in 2011, there was a clear bump of roughly 150 basis points, almost 200 basis points, either EBIT or EBITDA. And then, it seems that in general, the sell-side community sort of projects a flat margin from here at least for the next two years. So, can you talk a little bit about what happened in terms of that bump and as you look out in related to given that the rise or return on capital, as you think about your potential for higher margin and higher returns in the future?

John DeSimone - *Herbalife Ltd. - CFO*

Okay. So, let me start with conceptually what we believe the contribution margin or incremental margin long-term is in the business, okay. And it's a fallout based on how we manage the business and we've communicated this publicly that long-term incremental margin on any additional sales from where we are at today is about 20%, after investment. In the short term, it's higher. Right. So when we have a quarter or two quarters where you really beat expectations, you're going to have higher a contribution in the short term because we haven't invested for it, but we will after the fact.

So if you look back from -- and I qualify that to say that it's on a constant currency basis, currency matters and that may be one of the reasons why the out years, the dollar has strengthened since September of last year, so it has an impact in the model, right. But on a constant currency basis, from 2011 to 2009, the incremental contribution margin was about 21% or 22%, I don't remember the exact number . So I'm looking at it on an operating margin standpoint. EBITDA is probably pretty close to the same, right, I'll do the work for you, but it's not much different. We don't spend a lot of capital. We don't have a lot of depreciation. It's not a capital-intensive business. Is that okay?

Unidentified Audience Member

That's helpful. And so looking out, we should model and assume that each incremental dollar of sales would basically start taking your margin higher towards that 20% range?

John DeSimone - *Herbalife Ltd. - CFO*

Yes. On a constant currency basis, that's -- hate to put that qualifier in, but we're a global Company that translate all our results back to dollars, so it does matter.

Unidentified Audience Member

Okay. All right. And I've got couple of questions. First of all, can you just help to clarify your growth? I think, early on at the start, someone mentioned about 35% CAGR. Going forward, you have for FY12, it's about 10% sales growth. In the next five years, what sort of compounded growth can you expect and [folding] that, what is going to drive that growth? Is it new members, is it new products, is it increased consumption by existing members and people going forward? So, yes, and a third, sorry, just last one is basically trying to understand the industry better. You mentioned about China.

People are getting more obese, and even in the US, what sort of -- I'm just trying to understand is how many people have actually within that obese group is currently your member, just trying to understand the potential? Thanks.

John DeSimone - *Herbalife Ltd. - CFO*

How many people? All right. So there were a lot of questions there, I think, it was maybe three. I mean some of them had a, b, and c. So I hope like I remember them all. So, the driver of our growth -- and I might take them in the wrong order, but the driver of our growth we still expect to be the expansion of daily consumption. We know daily consumption works. We've seen it working in a lot of markets.

Our distributors are buying into it. It only represents 35% to 40% of our business today. We think it can get up to 65% to 75% of our business. It's -- internally, it's our most important strategy because it's a model that has more sustainability than traditional direct selling, so by far that's any kind of new products, new products, I would say, would augment that growth, it's not the driver.

New products are not the driver of growth, it's the expansion of this distribution model that's the new driver of our growth. From a long-term growth perspective, the only thing that we've said publicly is between now and 2020, we want to grow volume around low-double digits, right. We want to be -- we call it volume points, again without getting too complex. We want to get to 10 billion volume points in 2020, that implies a CAGR of around 11% or 12%, somewhere in that range. Okay.

So that's what we believe is sustainable over the long term. Other than that, we haven't guided beyond the current year. The current-year net sales, of course, is impacted by currency, right, because it's exchange rate driven, but the volume is still looking for volume that we're guiding the volume to be double digits. We're guiding it actually 14% to 16% in Q1, so it's mid-teens growth in Q1, so still substantial growth and we think there's a lot of runway left.

Amy Greene - *Herbalife Ltd. - VP, IR*

And your global number, what I would look at is per capita penetration and that would be easier than how many members since we don't have good end user data, but if you look at per capita penetration, we give it to you for -- it's in the slide presentation for several key countries but when you take volume points by market and then divide it by population, our overall number including India and China which is obviously weighted by a huge denominator is about 0.6 volume points per person globally in the markets in which we are operating.

When you start looking at the Mexicos, the Koreas, the Taiwans, the US Latino markets, places that have had daily consumption for any given period of time, you tend to see a fivefold increase in per capita consumption between both pre-daily consumption and the volume points that we've booked at the end of 2011. So -- and how they stage in, is kind of market dependent, but that would give you -- you can look at that page and it will give you some idea.

John DeSimone - *Herbalife Ltd. - CFO*

Get everything?

Unidentified Audience Member

(inaudible - microphone inaccessible).

John DeSimone - *Herbalife Ltd. - CFO*

Sure.

Unidentified Audience Member

(inaudible - microphone inaccessible).

John DeSimone - *Herbalife Ltd. - CFO*

No, it's a distinct business method for which distributors sell product to consumers. It's a different business method than traditional direct selling. It's generally sold out of a fixed location, where distributors see their customers frequently and the customers are coming to them. All right. So you're asking the customers to buy a little bit, very often instead of a lot, infrequently. Okay. And I've used this example a lot in the past, so I don't generally use it again in big investor meetings, so I'll use it for you, because I think you needed the story.

Think of coffee, you can go to Starbucks and buy a cup of coffee for $2, right -- I mean we've said that today, right, (inaudible) sorry at that. I said it already, but that's kind of the concept, right, which is you're asking somebody to buy a little bit, one meal at a time, and it's a much more acceptable way of buying a product that drives a lot more product compliance and it's a lot stickier. And that model is a model that we're globalizing and that's what gets us excited and confident in the numbers that we've provided the Street.

Yes.

Unidentified Audience Member

(inaudible - microphone inaccessible).

John DeSimone - *Herbalife Ltd. - CFO*

So I don't think there is much benefit, I can't say that for certain. I can tell you that we do not allow distributors, we call -- it's called poaching that you're talking about, right. We don't allow it, we don't preach it, we don't want to be part of it. We won't allow it, we will never allow a distributor from another organization to take the organization to Herbalife. Right, so if it's happening, it's happening one distributor time with no organization. So I don't think it's that impactful. And of course, frankly, I don't think we prefer -- distributors to come into business to being a consumer of the product, having a product result, they make the best distributors, not somebody who is looking for the money first and the mission second, but the inverse of that. So I don't know that we're seeing a lot of that. But I can't say, for certain.

Chris Ferrara - *Bank of America/Merrill Lynch - Analyst*

All right. Well, John and Amy, thank you very much for sharing all the time with us.

John DeSimone - *Herbalife Ltd. - CFO*

Thank you.