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PRESENTATION

Wendy Nicholson - *Citigroup - Analyst*

I am Wendy Nicholson, Citigroup Home and Personal Care Products analyst. It's my pleasure to introduce Herbalife to you this morning. I know it's been a very controversial stock. We are thrilled to have them here. The speaker is going to be John DeSimone, the CFO of the Company. Also, we have got Amy Greene from Investor Relations. So we will turn it over to John.

John DeSimone - *Herbalife Ltd. - CFO*

Thank you. Good morning. Start with the -- our Safe Harbor statement. The details of this is on our website -- and the slides are not moving. Here we go.

As Wendy said, it has been a unique couple of weeks for us. I think the key learning for us is that there is enough insecurity in our business model that we need to do a better job educating Wall Street as to how it works and why it works with substantive facts and data behind it. And that is what we're going to attempt to do today.

We have added a number of new slides and a number of new statistics in an attempt to do just that. We are calling that section Herbalife 101, so it is how the model works. We will move on to what is driving growth, what has been driving growth, what is expected to continue driving growth, which is really a new way our distributors go to the marketplace.

We're going to provide some key consumption-related metrics. So what has been identified over the last couple of weeks is we don't have visibility into -- direct visibility into consumption, but we have a lot of indirect visibility into consumption. And we are going to provide some new stats for that. And then we will get into our financial performance.

So, I will start with how the model works. We have just under 3 million -- we call them distributors -- and I think that has been a confusing term that has been misunderstood by the Street and by media. So we are going to bifurcate that into two groups. We call them sales leaders and non-sales leaders. And they are very different groups.

They are still distributors in our vernacular, but the way people outside of the Company need to look at these two groups is that the non-sales leaders are nothing more than single-level distributors. They're single-level, eligible earnings only; there is no multilevel component to those individuals. They derive all of their income just from the retail/wholesale profit, meaning they buy it at discount and they can sell at a markup. There is no royalty stream. They are not eligible for royalties or bonus at all.

And I think the fourth bullet point in that right box, the upper right box, is a really important bullet point. There are no buying requirements by non-sales leaders. So if a distributor is in the business and buying product, they are buying it because they have consumption-based needs, whether it is their consumption or their customers' consumption, but for no other reason.

And again, the message is when the media or the press think of single-level nobody questions that distributors are in the business for self-consumption. Right? That was a question raised a couple of weeks ago, about how much of our business is consumed inside the distributor network and outside. And the reality is as long as it is consumed, it doesn't matter whether it is in or out.

Then there is a second group, which is 18% of our distributors, so it is a smaller group, which are multilevel earnings eligible. With that group, to become a sales leader, you sign up as a distributor, the first-level group, and you can accumulate volume to move into that sales leader category. So there are volume accumulation requirements to qualify for a sales leader and to qualify for royalties. And we will talk about that in a few minutes.

This slide depicts in these two horizontal green bars the earnings opportunity for our distributors. And that left green bar, the bigger one, is the single-level earnings opportunity; that is, you buy at a discount and you sell at a markup. Okay? And on the far -- on the right side, it is the royalty, it is the multilevel earnings bucket, which is less than half the size of the single-level.

Now why is that important? Because when media and investors over the last couple of weeks have determined the earnings opportunities for distributors, that left bar, the bigger bar has been left off. Yet on the prior page, that 82% of the distributors who are single-level are only eligible for that left bar, not for the right bar. So the numerator that is being used has been wrong and the denominator that is being used has been wrong. So it comes up with a distorted calculation.

And then I think most important on this slide is that bottom bullet point, which is no distributor, whether they are a sales leader or a non-sales leader, can earn both royalties and retail profit on the same sale. So how does -- what do I mean by that?

If Amy is a sales leader and she can buy the product at a 50% off, and I am a distributor under her, and I buy it at 35% off, she makes 15 points. She makes that retail profit. And that is all she makes; she makes no royalties. The only time she can make a royalty is if I also have qualified for a sales leader and can buy the product at 50% off. Now, she's making no royalty -- I mean no retail profit, because she is buying it at the same price that I am buying it on. There is no markup for her, but she makes a royalty. So she gives up the retail profit in exchange for the royalty.

Why would you do that, because the royalty is less? Well, the retail profit is on a smaller base, the royalty is on a bigger base. Right? So you make smaller dollars on a bigger base. So that is another important element of our business plan I think is misunderstood.

Before I get to some stats behind consumption, I will talk a little bit about our product category and what is driving our growth. So our product categories fall into -- we break them into four buckets and then all other. The biggest bucket is Weight Management; it represents a little less than two thirds of our sales. Half of that comes from the meal replacement product, Formula 1. Targeted nutrition, which is more traditional supplements, is 23% of our business. We have a small Sports & Energy, but growing category, at 5% of our business. Outer Nutrition, which is skin care, is 4% of our business. And All Other, which includes IBP sales, which is the pack people buy to become distributors, literature, clothing, and everything else we sell to support our distributors, is 5.5% of sales.

How our product is positioned has been a key element of growth over the last -- I will give it nine years, or starting in 2003, which is the product is positioned as a meal replacement, which makes it a replacement spend, not a discretionary spend. All right? So that is an umbrella statement.

How the distributors go to market with that selling proposition is through something we call daily consumption. Daily consumption is defined internally, within Herbalife, as any business method our distributors use to create frequent interaction with their customers. Okay? Traditional direct selling, very infrequent interaction between a distributor and a customer -- once a month, maybe you see them once every two weeks. What our distributors are attempting to do is drive more frequent interaction, because that more frequent interaction, especially in a weight management type product, drives product usage, drives consumption. That consumption drives the product benefit. Okay? So we will talk a little bit about that in the next slide.

Three of the models that our distributors use to create that frequent interaction are weight loss challenges -- kind of think of the Biggest Loser, where people weigh in once a week, and if you gain weight, you pay a dollar, if you lose weight, you can win money, that kind of thing. And then all the way to the right is the most prevalent model, which is a Nutrition Club. A Nutrition Club is a fixed location operated by distributors that operates as a social club, where the customers can come in, pay an entry fee to the social club for the day and get three core Herbalife products, Formula 1, tea, Herbalife tea, which is the caffeine drink, and aloe for digestion. And it is positioned as a replacement meal. And the objective of that selling proposition is to take somebody who is already spending their $4 or $5 at fast food and bring them over to Herbalife for a meal, and actually save money and get better nutrition.

Why that model works so well? Again, we talked a little bit a minute ago about frequent interaction. But that frequent interaction creates a socialization or sense of community when the people get together often. And that creates a -- we will call it consumer discipline. And weight management products, a lot of people in weight management, it is a big category, a lot of people get in for -- to lose weight and don't have the discipline to succeed. That interaction helps create that discipline. It creates a socialization, a network of people helping support your goals, and that drives the product usage and the product compliance.

Product compliance will drive a product result. Because a meal replacement shake is a low-calorie delivery form of proteins, carbohydrates, vitamins, minerals, nutrients. And low-calorie -- it is -- caloric switch is how people lose weight and meal replacement. You replace a 600 to 800 calorie breakfast or lunch with a 200 calorie shake and you will lose weight.

That product result is very objective. When you lose weight, it is not a multivitamin where you think it works because somebody told you it works. If you lost weight, you know you lost weight, and everybody around you knows you lost weight, and that creates a good person-to-person selling opportunity and long-term customers.

That daily consumption, which is, again, that frequent interaction, we believe that around -- from different types of analysis we have done on it, between 34% and 41% of our business is transacted through that model. That is not just the three core products that are sold as part of the social membership, but it is take-home product sales that happen through that forum.

This is a little dated -- this is a 2010 survey we did for Nutrition Clubs in three key countries. We are redoing it this year. The first two green bars on the top are frequency of visits and how long they have been coming -- consumers have been going to clubs. In the US, 55% of the consumers go every day the club is open, and 55% had been attending for longer than six months. In Mexico it was 50% and 45%. And then in Korea, which was pretty newer clubs -- clubs in Korea started in 2009; this was done in 2010 -- 30% attend every day and 30% attended for longer than six months.

So these next few slides are new slides to the presentation, to provide data that is indicative of consumption, not just daily consumption, but consumption. So the first row are the core three products that are sold in Nutrition Clubs. Those core three products in 2002, the first column, represented 35% of our overall Company's volume. In 2012 -- excuse me -- in Q1 of 2012 and in 2011, those products represented 52% of overall volume. So the volume done through clubs, which is all consumption-based, has grown at 50% greater rate than the Company has grown.

The next stat is not a new stat, but I am not sure we have given out the 2002 data and looked at the trend, but that is the retention of the sales leaders. The sales leaders are those 18% of our distributors that have multilevel earnings eligibility. The retention rate in 2002 was 27%. In 2011, it is 52%.

Sales leader activity rate. So of that sales leader group, that multilevel earnings opportunity group, the average number of the entire population that ordered in a given month in 2002 was 37%. It is up to 56% this year.

5K sales leader qualifications. So there are two -- in the past, prior to 2009, there were two ways to qualify to become a sales leader. So you're a distributor, you have no volume purchase requirements. To become a sales leader, you had to buy 4000 volume points in one month or 2500 volume points in two consecutive months.

In 2009, we introduced the third pathway, which is doing 5000 volume points over any 12-month period. So the purpose of that change was to drive smaller purchases more frequently over a longer period of time and allow people to build their way into becoming that sales leader. All right? That's in the direction of daily consumption, support of the daily consumption. That represented 24% of our new sales leader growth, total sales leaders in Q1 of 2012.

And I think the next two stats are the most telling. The new sales qualification volume -- so again, to become a sales leader, you have to qualify through volume purchases. Those volume purchases -- think of it as recruiting volume -- new sales leader qualification volume as a percent of overall Company volume in 2002 was 27% of our overall volume. In Q1 of this year, 14%, all of last year, 16%. So there is a recruiting element to any business, as there is ours, but it is a small part of the overall volume, not a big part. That has been, I think, misunderstood over the last couple of weeks.

And then buyback as a percent of retail sales. If a distributor gets into the business and for whatever reason isn't successful, isn't motivated, isn't disciplined and wants to leave, we will buy back the product. There is a 10% restocking fee, but we buy back the product. That buyback percentage was 2.2% of retail sales -- and I think something happened with the computer, sorry. But it was 2.2% of sales in 2002; it was under 0.5% last year and in Q1 of this year.

And that -- all these stats exclude China, because China operates a different business model. In the US specifically, buybacks follow that same trend. It was 1.8% in 2002, and it was 0.4% in last year.

And this next slide, this slide, the more you know about Herbalife, the more impressive this slide is. The less you know, you may not fully follow the importance of this slide. But as you learn about the Company, you will understand the benefits of what we are trying to show here.

This is a depiction of our ordering patterns by order size. Okay? And it looks at the blue bar is 2007, so five years ago, and the green bar is Q1 of 2012. And the first set of bars are looking at volume point orders under 499 volume points. Now why is that an important threshold? Because anything under 500 volume points has no influence by our marketing plan. There is not one component of our marketing plan that anybody can benefit from until they at least order 500 volume points. Okay?

And even that is a very small group. If you are a distributor, who is not a sales leader, you get a 25% discount on your product purchases, until you get to 500 volume points. If you more order more than 500 in a month, you are up to 35%. Well, 86% of all of our orders in the first quarter were under 499 volume points, which is 47% of our volume. Which, again, not influenced at all by the marketing plan, all consumption-based. If you don't have a need, you don't buy the product.

If you move that threshold up to 999 volume points, again, only a small group that is influenced, but that small group that is influenced is single-level, so there is no royalty component. So the only reason they would buy the product is if they had a need, either customers or self-consumption. Right? Because all they're doing is getting an incremental discount. If they can't sell it, there is no profit motive for them, so they are either using it or selling it. That represented 95% of all orders and 66% of all volume.

And I think most importantly, if you look all the way to the right, we talked about new sales leaders' qualification volume. If you are a sales leader and you want to participate in the multilevel earnings component of the Company, you have to do 2500 volume points in a month, every month, to be eligible for full royalties.

If this was just selling inventory into the channel without consumption, those people would order 2500 volume points, right? They would just buy the inventory. 99% of all orders and 87% of all of our volume is under 2500 volume points, 2499, which means not very influenced by the marketing plan. So this is -- and the more you learn about us, the more you realize that this is hugely indicative of consumption-based sales.

And then again, the blue bar, you can see I think the most impressive comparison is that small order size, which represented 31% of volume five years ago and 47% this year. What does that mean? That means the Company is moving between its 5K program for qualification and its access program to make products more available to distributors, moving everybody from where they were to purchasing smaller quantities more often, so an indication of consumption.

I'll move on -- so we talked a little bit about how our model works, what daily consumption is, what the stats are that support consumption. And now I'm going to say how we go deeper in each marketplace.

So daily consumption in Mexico started in 2003. We had 16% growth in Q1 of 2012, almost nine years -- it is now nine years later. Where is that growth coming from? It is looking at each community within Mexico and identifying penetration opportunities, where we are underpenetrated. We do that through our system that has distributors and volume -- distributors are identified by zip code. Our volume is then identified by zip code, and we look for where we have penetration opportunities, and in those markets try to unify our distributor leadership, have them take responsibility for their specific city, have their meetings and trainings and, most importantly, commit to building the brand in that community through good business practices.

So it is an opportunity to go deep; in countries where our volume has been strong for a long time, we still can identify opportunities.

Some infrastructure requirements to support the growth. So there are two that we talk about that are key, Seed to Feed, which is vertical integration. It is a protection strategy first. The products are in a regulated category. Regulations not necessarily bad; it is a barrier to entry that might be good for the industry. We want to elevate the credibility of the industry. We feel we should self-manufacture to do that. So for us, it is regulatory is the reason why we want to self-manufacture first.

Second, which is related to regulatory, which is ingredient traceability on the botanical side. So we have built our own -- we are starting our own extraction facility in China, starting this month -- or next month, excuse me. We didn't build it; the government built it and we are leasing it. And then third, that vertical manufacturing opportunity has some financial benefit, and we have talked about that publicly.

And I think equally important is increasing our distributor access points. So the reason why we are making it -- the reason why distributors are ordering fewer or more often in smaller sizes is because we're making product more easily available to them, by bringing the product closer to the distributor.

So Russia is a good example. Eleven time zones in Russia. If you had one distribution center in Russia, it could take 15 plus days to get product. People would have to order very infrequently in large quantities to compensate for that shipping time. That would require working capital on the distributor side and a lot of inventory.

By us creating sales centers that are closer to the distributors, we are allowing those distributors just to order what they need for a short period of time, very little working capital requirements. And that is one of the reasons why our statistics are now skewing toward smaller orders more frequently.

Moving on to financial and nonfinancial statistics, Q1 was the best quarter in the Company's history. Net sales were up 21%. Volume was up 24%. We have a little headwind with currency. New distributors, up 22%; new sales leaders, 14%. Average active sales leaders, which is probably the most important metric that is not financial that is on this slide, which is of that 18% of our distributors who are multilevel earnings-eligible, how many of them are ordering each month. Active, it is a measurement of engagement. They were up 23% in the first quarter. And supervisor retention, which is an annual measurement, was up 310 basis points, from about 49% up to 52%.

Again, great first quarter. Very broad-based growth. North America which is mostly the US, was up 23%. Mexico -- again, Mexico is a great story. Mexico was the country that discovered -- that founded daily consumption. 2003, nine years later, still has strong growth, up 16%.

Asia Pacific, up 38%. South and Central America, 32%. EMEA, which is Europe, Middle East, Africa for us, it is really a story of two different Europes, Western Europe and Eastern Europe. Eastern Europe is strong, Western Europe is still more of a traditional direct-selling model, a lot less daily consumption than the rest of the world within Herbalife. And then China, which we are still very cautious on China, China is a challenging market, but we had 25% growth in the first quarter.

Average active sales leaders, again, we talked a little bit about this in the last slide. This is the number of sales leaders that are ordering in a given month. That increased 23% over Q1 last year. You can see we have had five straight quarters where that has increased at least by 20%.

Net sales, net sales was $964.2 million in the quarter, up from a little under $800 million the prior year. Currency headwind, we're showing what constant currency would have been in Q1 on the far right. And from an EPS standpoint, Q1 last year had $0.01 of non-GAAP adjustment, so we reported $0.72 with a normalization of $0.71. This year, we had no normalization. It was $0.88. It would have been $0.97 if not for currency. We had a $0.09 currency headwind in the quarter.

And then guidance, our guidance for the second quarter, which is the first two columns you see, 11.5% to 13.5% volume growth. There was, again, a continued currency headwind so it is net sales of 9.5% to 11.5%. If you jump over to the right, full-year volume growth of 12% to 14%, net sales of 12.5% to 14.5%.

And on the bottom, you can see EPS last year in the second quarter, $0.88 is what we reported. Our guidance is $0.91 to $0.95. That has a currency headwind again. And in the full year, $3.31 last year. This year, our guidance is $3.58 to $3.74. That does include a $0.25 headwind. We have quantified that for investors. So on a constant currency basis, we would be close to $3.90 to $4.00 in our guidance.

And then my favorite slide, especially given the circumstances of the last couple of weeks. Cash flow -- I think it is a tool that's in our tool belt to take advantage of maybe what has happened and to still provide a return for shareholders on net income -- and our free cash, pretty much equal each other, which is unusual in a high-growth company. And then 98% of our net income we have returned to shareholders since 2007 through a dividend and a buyback.

A couple of weeks ago, we announced a quasi-ASR, accelerated share, buyback, $428 million. We had $1 billion authorization a couple years ago. We had $428 million left on that authorization. Two days after our earnings call we entered into an agreement to buy back all $428 million remaining on that authorization.

The way that works is we will get the number of shares retired based on the average VWAP between -- I think it is May 3 and the end of July, whatever the average VWAP is, that is how many shares we get returned to us by Merrill. We entered into this agreement with Merrill. And the benefit of that it was of course to take advantage of what we think is a big dislocation in the stock from the intrinsic value of the Company. And then we will see what is next when we release earnings, because now we have used up that billion dollars and we will have to determine what the next step is with the future generated cash.

And the last element I will mention is we are incorporating in Cayman. Cayman has a negative equity covenant; it doesn't allow you to have negative equity. We are trying to overcome that, either move -- (inaudible) somewhere, or there are other elements, things that we can change to potentially lever up more to buy back stock, if we deem it is appropriate.

And this is just a sustainability graph that looks at our CAGR since 2004, 13% compounded annual growth rate, driven by daily consumption.

And that is the end of prepared comments and look to take some questions. I am sure there are plenty of questions.

QUESTIONS AND ANSWERS

John DeSimone - *Herbalife Ltd. - CFO*

Yes?

Unidentified Audience Member

The 55% number that you referenced, the number of people who purchase the product every day in the US, I believe, that number.

John DeSimone - *Herbalife Ltd. - CFO*

Well, that was 55% of consumers that -- we went to clubs. We had people go to clubs and survey consumers, and 55% of the consumers surveyed said they go to the club every day it is opened.

Unidentified Audience Member

Right, what is that number? Is there a peak to that number? What is the goal for that number? How high do you think that can go? And what have the trends been over the last couple of quarters?

John DeSimone - *Herbalife Ltd. - CFO*

So we did that in 2010. We are redoing it this year, so I don't have a follow-up set of statistics, but we will by the end of this year, where we can trend it. So all I have got is one point in time right now.

Unidentified Audience Member

Okay. And do you think that that number generally has been economically sensitive in the past?

John DeSimone - *Herbalife Ltd. - CFO*

You know, anecdotally, I can answer that. The selling proposition in a club is strategically position it against fast food. So the objective is to find somebody who is already spending money on an unhealthy meal and have them come into the club and spend a little less on a healthy meal. So it is positioned as a cost savings. Right. Which I think means as -- there is more inflation in meat protein than there is in plant protein, which is what we use. So I think the selling proposition that exists today will probably continue to be enhanced based on the inflation that is expected.

So I don't think it is economically sensitive. And if it is, I think it probably helps the selling proposition more than it hurts the proposition.

Unidentified Audience Member

Got it. And then last question, on China, why so much caution? Is it from a consumer perspective or from a sort of government regulation perspective?

John DeSimone - *Herbalife Ltd. - CFO*

Government regulations perspective. Both direct selling and our product supplements are highly regulated in China. And China, it is a lot of rule by law, not just rule level, all right? If they want to change the interpretation of something -- of a law that's out there, they just do it.

So for example, it is an election year, and the government is limiting the number of people that can attend any one meeting, because they don't like big groups. Because big groups is the enemy to communism. And we have large group meetings. So, yes, could this have an impact on our business? It could. So we're just always going to be cautious on China just because of the regulations.

Unidentified Audience Member

I've got two questions. What percent of your retail sales come from the non-sales leaders, the 82%?

John DeSimone - *Herbalife Ltd. - CFO*

So, purchases directly from the Company -- of that 82%, a lot of people never purchase from the Company. So they sign up to be a distributor from their sponsor, but they still buy product from the sponsor. The reason why they sign up is to protect what is called lineage.

So if I am a sales leader and Amy is my customer and I sign her up as a distributor, I have no income stream from that; I am just still just making retail profit. But if she loses weight -- I don't mean it that way -- but if she needed to lose weight and had lost weight, and now she wanted to be a sales leader because she believes in the product, I want to make sure I have that royalty tie, which means I want her signed up under me.

So a large group of distributors never order from the Company. But for those that do order directly from the Company, they represented a little more than 35% of our retail sales last year -- on direct orders.

Unidentified Audience Member

So the 82% of your distributor base that is not a sales leader only accounts for 35% of the retail sales?

John DeSimone - *Herbalife Ltd. - CFO*

Only account -- only is a bad word there, because I think it is a misunderstanding of how the model works. Again, a million of our distributors don't order directly from the Company. So most of the distributors that order from the Company -- it is maybe half of the population that actually order from the Company -- represent 35% of sales directly from the Company, correct. 35% of volume. We look at it in volume points.

Unidentified Audience Member

Okay. If I am a qualified producer, so non-supervisor distributor, and I am dissatisfied, would I return product to the Company or to my sponsor?

John DeSimone - *Herbalife Ltd. - CFO*

Well, you could do either. It depends who you purchased the product from.

Unidentified Audience Member

Let's say I purchased it through the Company as a non-supervisor distributor.

John DeSimone - *Herbalife Ltd. - CFO*

Then you just return it to us. If you purchased it from your up line, you can return it to them. And if they don't take it back, you can return it to us and we will take it from there.

Unidentified Audience Member

What if I purchased it from my sponsor, but not from the Company? Would I return it to the sponsor?

John DeSimone - *Herbalife Ltd. - CFO*

Yes, well, your first -- you first would go to the sponsor. If he doesn't take it back, then you come to us. We will take it back and we will take it from the sponsor.

Unidentified Audience Member

John, given your excellent free cash flow and your inability to buy back stock at the moment, why don't you raise the dividend like 50%? You could well afford a 50% payout ratio and I think that would decrease the volatility in your stock.

And also, I would just like to clarify -- your buyback should retire about 7% of your shares and that is not in your guidance, right?

John DeSimone - *Herbalife Ltd. - CFO*

So the first question is -- I will answer the first question by saying we are looking at every way possible -- the best way possible that we believe at the Board level to take advantage of our free cash. But I can't make a commitment to you at this point as to what that is. But I hear your advice.

Secondly, the way the program works, the buyback that we entered into, it is not going to be accretive in the second quarter, because we don't get shares -- we get shares delivered to us at two points in time. June 30, so we will have some shares retired for one day of a quarter, and you use average shares when you do EPS or you do your share base. So it will have -- actually, it will probably hurt by $0.005 in the first quarter. But then you get the benefit of the share base in the second.

Why does it hurt in the first quarter? Because we have already given the money, we have interest expense in this quarter. I say first quarter, but the current quarter, the first quarter of the buyback -- we have interest expense, we don't get the share base benefit until next quarter.

Unidentified Audience Member

Right, but for the full year, it will be accretive and obviously accretive for next year.

John DeSimone - *Herbalife Ltd. - CFO*

Yes, I mean look, the answer to that question is yes. So whether it is 7% we buy back or not, we don't know. It is the average VWAP between May and July 29 -- is the last trading day in July. So it all depends on what is going to happen with the stock over the next six, eight weeks or more, actually, that will determine how many shares we get back. Yes, at this price, it could be 7% of our share base.

Unidentified Audience Member

Can you provide an equivalent of a same-store sales metric by vintage? So if we look at sales leaders from the class of, say, 2005 and then sales leaders from the class of 2006, '07, '08, what is the same-store sales growth of each of those classes, such that we as investors could get an understanding of the productivity over time of the classes that you are recruiting in each year? And when do they effectively, if you would come, if they do at all, sort of top out in terms of productivity?

John DeSimone - *Herbalife Ltd. - CFO*

Okay, so productivity doesn't change much, but I think that is something else that is misunderstood in this business -- in our model. So let me explain it.

I'll use -- there are two ways distributors get into this business, okay? One is they can be recruited in the business and they go find customers. Another way is a sales leader has more customers than they can service, and they turn one of their customers into a distributor to help service that customer. So there is a limit in what productivity any one sales leader can have.

And think of a hair salon, where you have a limited amount of time. Again, we are person-to-person. This is face-to-face sales. Think business-to-business, face-to-face. If you have a hair salon, you have one station, you have a limited amount of capacity to create revenue. When you have more customers than you can handle, you may open a second station and hire a second person. So that is the way it works.

So you don't see changes in productivity much within a given country. They can differ by country. But within a country, when somebody gets to a certain level of productivity, a new person comes in. But that new person came already with customers. It doesn't always work that way; it can be the inverse. Somebody can get in and have to go find customers. But it works both ways.

So I think your -- Christian, we haven't disclosed -- I think it is -- you called it vintage, right? So it's year-over-year, how much of like 2011 sales came from people that were in the business in 2009, I think maybe is what you are thinking.

I can tell you that in preparation for this and some questions that have been asked over the last couple weeks, we know that the distributors who are not sales leaders, in 2009, 40% of those -- the ordering ones in 2009 also ordered in 2011. That is non-sales leaders.

That doesn't give you the volume statistic, but it gives you an equivalent to a retention rate of non-sales leaders, which is much higher than what is being represented in the financial presses, 90% of the people turn. All right? So it's -- I want to say it's 65% of the volume from non-sales leaders and almost 39% to 40% of the distributors order two years later. Two calendar years later, so it's not exactly 24 months.

So I think that gives some direction to it. It is not specifically what you are asking for, but it is what we are prepared to give at this point.

Unidentified Audience Member

Or another way, if you did recruit any more sales leaders or non-sales leaders and your headcount basically was fixed, how would you budget and how should we think about if -- the organic sales that you would grow year on year, absent growing any headcount within each of those two categories?

John DeSimone - *Herbalife Ltd. - CFO*

I think if you go to the statistic that we did give, which is the amount of our volume in Q1 or last year that came from recruiting was 16% of last year's volume, 14% of Q1 volume. I think that is good information that anybody can do the math and figure out what it would have been if nobody else came in.

Unidentified Audience Member

Are there any new products or day parts you are working on?

John DeSimone - *Herbalife Ltd. - CFO*

Yes to both. It is not the driver of growth right now. There are two key product initiatives. One launched last year, which is the Sports Line. It is a slow build, because it is not a product line that our distributors are used to selling. It really is going after a new distributor and a new customer. Not always a new customer; some people when they lose weight get into sports, so it is a natural matriculation, so it helps on that front.

But it's an exciting product line because we brand through sports, and most of our teams wear our name but don't use the product, because they don't need to lose weight, right? They need a totally different product set. So we created a product line that they can use to authenticate the branding. But I think what we are finding is there are a number of distributors out there now who love the product and are creating -- we call them DMOs, daily methods of operations, around the sports product line.

Like they are having -- some of our distributors don't like this, but it's kind of like a boot camp. So on the beach in LA, distributors have free boot camps in the morning, there will be 150 people there, and then they come over to the club to have the sports product. So they are creating different methods for which to funnel customers to their club for product around the sports product line.

On the skincare, I find that skincare can be more interesting. It is not something the Company has been very good at in the past. We've definitely made more commitments toward that side. But it's the same consumer who is already in the club that is buying skincare for somebody else. And we have brand equity with those consumers, so I think there is a way to get some more share of wallet on that product line. But that is still late this year, early next year. But even then, I think let's wait until it happens before we build -- that is upside to what our projections are; it is not included in our projections.

And then dayparts, we are seeing a little bit in Mexico. Mexico, we are home clubs. The club model in Mexico was entirely home clubs for years and it was all breakfast. They have now gone to commercial clubs, so they have rent and related costs, and they are trying to find ways to better utilize that club throughout the day and they are trying to come up with soups and things like that so that that consumer -- they can get that third meal coming out of the club. But that hasn't started yet; it is something that is being looked at. And it is definitely an opportunity.

Unidentified Audience Member

Yes, I've been to two or three presentations now, and I am starting to figure it out, so thank you. 101 was a good place to start.

Can you address the two points that have been made in the press? One is these government-sponsored loans, where the loan entity is trying to not give these loans out to women starting clubs? And the second one is that 9% of your people aren't making any money, and the statistics you use, I guess, represent sort of the -- only a portion of the pie, which doesn't sound correct at all to me, but it's well-reported.

John DeSimone - *Herbalife Ltd. - CFO*

Okay, well, I guess we can question whether it is well-reported or not, but --

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Wendy Nicholson - *Citigroup - Analyst*

It's well-disseminated.

John DeSimone - *Herbalife Ltd. - CFO*

Well-disseminated. So first, they are not government-sponsored loans. I think it is microcredit from a for-profit organization, okay? I know nothing about it. Our response to Barron's is we didn't know about it. So we are looking into it, but I don't know. But at the end of the day, most of the distributors who get in through the slow method, which is this 5K or through clubs, have very little financial commitment upfront.

I think what you are hearing in the press is somebody searching for specifically negative news that they can report on us and trying to find -- cherry pick data and paint this broad brush with that data and saying this whole Company has got a problem because we have got three distributors who (multiple speakers) --

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Unidentified Audience Member

New distributors getting loans, [minute number].

John DeSimone - *Herbalife Ltd. - CFO*

I can tell you that the Company is unaware of it, okay? That is one. Two, your second question was, if you can --?

Unidentified Audience Member

Well, this claim (multiple speakers).

John DeSimone - *Herbalife Ltd. - CFO*

So, the attempt -- I'm going to go back to the beginning of this -- so the attempt of Herbalife 101 was to break the distributors into single and multilevel. Why? Because A, it is truly single, and B, nobody questions single-level, knowing that most people who are in single-level aren't in it to make a lot of money. They are either in it for part time or it is self-consumption. If you go back to the old Avon model, before they were multilevel, right, self-consumption, not even an issue. It isn't not even covered on the FTC's website. It is expected.

So what we are trying to educate the investment community and the media in general is those distributors have no earnings opportunity in the multilevel component. Okay? Yet when the press does their math, they get that 99%, and they use that 82% in the denominator, but they don't use the right numerator. They use -- I'm going to go to this page -- I think it is page five -- give me a second -- they use that far left -- that far right bar, which is the smaller piece of the earnings opportunity.

But at the end of the day, it really doesn't matter. It is all about consumption. And if people get in this business for self-consumption or to make a little bit of extra money, which is what most people get in the business for, we're fine with that, as long as the product is being consumed. I think it has been misrepresented as the product needs to be consumed outside the network, which it does not. A, the FTC said it does not. But, B, when you think of the 82% of the people at single-level, which is, again, that is all they are, it is not even a consideration as a challenge to the model.

Unidentified Audience Member

But a distributor using a discount of the left-hand side of the box should still be, quote, making money, right?

John DeSimone - *Herbalife Ltd. - CFO*

If they are buying it for themselves, they don't have to be, right? So if I am a consumer of Herbalife and I am buying --

Unidentified Audience Member

Self-consumption, sure.

John DeSimone - *Herbalife Ltd. - CFO*

Self-consumption, right?

Unidentified Audience Member

What percentage is self-consumption then?

John DeSimone - *Herbalife Ltd. - CFO*

Well, we don't know; we just know that it's being consumed. How do we know it's being consumed? Because our ordering patterns suggest frequent -- if somebody is ordering three times a month, it is being consumed. It may be consumed by them, it may be their friends and family, but it is being consumed. That, with other elements of our plan and all this data we have supports that it's being consumed. Whether it's being self-consumed or outside is irrelevant, right?

Which, again, I know that has been challenged the last couple of weeks, but it's irrelevant. As long as somebody's buying the product for consumption, does it matter if they are a distributor or not a distributor? A distributor has no purchase -- remember, that single-level person in our Company has no purchasing requirement. You can be a distributor for your life for $10 a year. We have investors who just got their -- we were talking yesterday -- got their three-year distributor pin, never bought a product. You don't need to buy a product. So if the distributor is buying a product, it is because they have a need.

Unidentified Audience Member

I guess if a significant portion of your distribution channel is giving the product away without any financial reward, in other words, passing it straight through, self-consuming or giving it to their sister for the same price, right?

John DeSimone - *Herbalife Ltd. - CFO*

Or a slight markup. We don't -- it could be --

Unidentified Audience Member

I guess I would like to sort of -- we are talking about comp sales. I would like to see some profitability in the chain sort of down the channel. I would like to think that people are paying a slight premium to buy it from (multiple speakers).

John DeSimone - *Herbalife Ltd. - CFO*

And you want -- and you would like to think that because why?

Unidentified Audience Member

I guess it gives sort of sustainability to the viability of the product.

John DeSimone - *Herbalife Ltd. - CFO*

If somebody is using the product, isn't that sustainable? If a distributor is using the product and lost weight, taking the product every day, isn't that just as sustainable as if they are selling it to their sister?

I mean, it's use, right? Use is the most important element. Consumption is the most important element. It does not matter if it is a distributor who is in it to make money or a distributor who is in it to lose weight or a distributor who is in it to help his family lose weight. What happens in weight loss, especially in weight loss, when you lose weight, there is a limited number of people around you who want to lose weight too, and they use the product. And whether you sell that product for a markup or is irrelevant. For sustainability.

Yes? There's two questions.

Unidentified Audience Member

Actually, I have two questions. Given -- you pointed out obviously your stock is trading at a discount to what you think is intrinsic value, trading volume has been very high. Could you accelerate your ASR? It seems like it is kind of a long fuse.

John DeSimone - *Herbalife Ltd. - CFO*

It has already been entered into, and it is a three month agreement, so it is the way -- the VWAP over three months, so it is done. We did it that way because --

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Unidentified Audience Member

You have a counterparty; you could amend it and accelerate it if you wanted to. It seems like it would behoove you.

John DeSimone - *Herbalife Ltd. - CFO*

I like averaging in, so that is what we --.

Unidentified Audience Member

Okay. And the second question is since kind of obviously your main thrust is meal replacement, could you just talk about who the competitors are in meal replacement products that would be similar and what your market share would be?

John DeSimone - *Herbalife Ltd. - CFO*

On a worldwide basis, we have number one market share at 33% and 35% -- I don't remember -- but it's in the Euromonitor. It was in a prior presentation. I could pull it up for you. The number two competitor is Slim-Fast. But the diet category, whether it is meal replacement -- is a huge category, right, and it falls into many different subcategories. Whether it is the Weight Watchers, the Jenny Craigs or the magic pill -- which we are not a believer in; we are in healthy weight loss -- it is a big category.

We believe we are taking share, but we also believe we are making share. We are trying -- our distributors are trying to find people who are not buying meal replacement shakes today and convert them to Herbalife. They are trying to find somebody who is buying a Big Mac and convert them to a meal replacement shake.

I think there was a question behind you.

Unidentified Audience Member

Just concentrating on the fundamentals for a second, the sales leader growth and the volume point growth seemed to be much higher in the recent quarter than your guided revenue growth going forward. Does the sales leader productivity tend to historically hit a wall or decline in a three-month span? Or is currency that large a hit, that would suggest that revenue growth going forward would decelerate pretty good from what we have seen in sales leader and volume point growth in the most recent quarter?

John DeSimone - *Herbalife Ltd. - CFO*

So, obviously, we are -- I will walk you through our internal process, okay, so you can understand our approach to guidance. It starts with a budget. Our approach -- so our budget and our guidance are the same. Our forecast and our guidance is the same. We take a very conservative eye to both, because we don't want expenses to get ahead of revenue.

So when we budget, if we budget 20% growth and we're going to have expenses behind it and the expenses will be spent in front of the revenue and if it is not there, we have a cost issue, right. So we manage it very conservatively, and until the revenue has been seen, we don't add the cost.

And we do add the cost (inaudible) request. So we have a conservative eye on the forecast, always have, and likely always will. At least in our opinion, when we do it, we think it will be conservative.

The reason why you see a deceleration in our forecast from what has been experienced is we are on the second anniversary of the inflection point of strong double-digit growth, which started in Q2 in '10, so the comps are just getting higher -- harder.

Unidentified Audience Member

Has there been any evidence of any PR-related impact from the noise that is out there?

John DeSimone - *Herbalife Ltd. - CFO*

Certainly not at this point. I don't know what the future holds, but I can tell you that most of our distributors have no concern over what is going on on Wall Street or what's going on in our stock. So I can tell you most of the distributors don't even know this is going on. Remember, we are 80% outside the US. This is very much a Wall Street story, right, what is going on.

Wendy Nicholson - *Citigroup - Analyst*

Okay. With that, I think we will cut it off and just say thank you very much for taking all the questions. And anybody who is interested in Proctor and Gamble, it is the ballroom down the hall.

John DeSimone - *Herbalife Ltd. - CFO*

Thank you.
