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HLF - Q3 2012 HERBALIFE LTD Earnings Conference Call

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OVERVIEW:

HLF reported 3Q12 net sales of $1b and EPS of $1.04. 2012 net sales are expected to increase by 16-18% and fully diluted EPS to be $3.99-4.03. Expects 2013 net sales growth of 10-12% and EPS to be $4.40-4.55.

CORPORATE PARTICIPANTS

Brett Chapman *Herbalife, LTD - General Counsel*

Michael Johnson *Herbalife, LTD - Chairman, CEO*

Des Walsh *Herbalife, LTD - President*

John DeSimone *Herbalife, LTD - CFO*

CONFERENCE CALL PARTICIPANTS

John San Marco *Janney Montgomery Scott - Analyst*

Michael Swartz *SunTrust Robinson Humphrey - Analyst*

PRESENTATION

Operator

Good morning and thank you for joining the third quarter 2012 earnings conference call, for Herbalife, LTD. On the call today is Michael Johnson, the Company's Chairman and CEO; the Company's President, Des Walsh; John DeSimone the Company's CFO, and Brett Chapman, the Company's General Counsel. I will now I will turn the call over to Brett Chapman to read company Safe Harbor language.

Brett Chapman - *Herbalife, LTD - General Counsel*

Before we begin, as a reminder, during this conference call comments may be made that include some forward-looking statement. These statements involve risk and uncertainty and, as you know, actual results may differ materially from those discussed or anticipated. We encourage you to refer to yesterday's earnings release and our SEC filings for a complete discussion of risks associated with these forward-looking statements and our Business.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with US generally accepted accounting principles, referred to by the Securities and Exchange Commission is non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors in evaluating and comparing period-to-period results of operations in a more meaningful and consistent manner. Please refer to Investor Relations section of our website, herbalife.com, to find press release for this quarter which contains a reconciliation of these measures. Additionally, when management makes reference to volume during this conference call they are referring to volume points. I will now turn the call over to Michael.

Michael Johnson - *Herbalife, LTD - Chairman, CEO*

Thank, Brett and good morning everyone. Welcome to third quarter 2012 earnings conference call. We at had another record quarter with net sales up 14% to $1 billion. Volume points of 1.2 billion increased by 17% over the prior year's third quarter and EPS is $1.04, a 20% increase.

Our growth, it continues to be broad-based. Each of our six regions experienced strong double-digit volume point growth in the quarter. Four of our regions; Asia, Mexico, and China, and South and Central America exceeded 15% volume point growth. North America had a 14% increase in volume points and EMEA experienced a 10% volume point growth in the quarter. And our average active sales (inaudible) increased 22% in the quarter. Des, will provide more color around these regional results in just a minute.

The consistency of our growth and financial results reflected dedication and hard work of everyone on Team Herbalife. So thank you for to our independent distributors and employees around the world for another record performance. For more than 32 years, Herbalife products independent distributors and employees have been helping millions of people achieve their weight management and daily nutrition goals. This has always been the culture of Herbalife and the need for good nutrition; it's never been more and important than it is right now. A fundamental change in our business began 10 years ago with the development of nutrition clubs in Mexico. This increased addressable audience by our products more affordable to more consumers.

Over the last several years the substantial portion of our growth has come from our distributors around the world moving to daily consumption business methods built the creation of lifelong customers consuming Herbalife product every day. We believe that these business methods now generate approximately 40% of our volume. With approximately 43,000 nonresidential clubs at the end of the third quarter Herbalife products are now more accessible to more customers than ever before. The success that our distributors are having throughout our 85 markets continues to be driven by the high-touch, frequent contact business methods that are the hallmark of daily consumption business methods. Mexico, our oldest daily consumption market, has continued to experience double-digit volume point growth. The sustainable growth in Mexico highlights to us similar results that are possible in many other markets that are continuing their adoption and expansion of direct-selling methods.

Yesterday, we introduced guidance for 2013; volume growth, earnings growth in capital expenditures. This guidance reflects our outlook for continued growth in net sales, volume points, and EPS. Additionally, we provided guidance for capital spending needs. The increase in our CapEx in 2013 primarily reflects our ongoing investment in the manufacturing of our top products, expanding tools for our distributors, and creating more product access points. In 2010, as part of our ten-year planning process, we said an aspirational goal of 10 billion volume points by 2020. Basically tripling our volume from our 2009 days. We discussed the goal, we were cautious always use the term aspirational because it was just that, a stretch. Every year, we update our five-year plan. And layering in growth we have experienced since late 2009, our aspirational goal of 10 billion volume points by 2020 is now a number we believe we can achieve and a goal we are implementing plans and infrastructure to support.

Investments in our seed-to-feed strategy, reflect their high degree of competence in our business and are crucial to supporting our growth. In August 2009, we announced the acquisition of Lake Forest California Herbalife Manufacturing and Innovation Facility. Based on our growth expectations in 2009, Lake Forest was designed to produce about 40% of our global inter-nutrition product. Our growth has continued to exceed our expectations and therefore, the facility is now approaching full utilization.

Recently our Board of Directors approved creation of a manufacturing facility in the US on the East Coast that will have approximately 4 times manufacturing capacity of our Lake Forest facility. We anticipate that this facility will be on-line producing Herbalife product in 2014. The self-manufacturing component of our seed-to-feed strategy has enabled us to have faster speed to market in more regionalized product ideation. With seasonal flavors of our Formula 1 shake are an example, we recently launched the Dulce de Leche in the US and Sweet Corn in Brazil. In 2013, we plan to accelerate these new flavors. Both seasonally and by region, as well as introducing additional delivery forms such as, GMO-free shake and a meal replacement soup, in certain markets.

Our Formula 1 shakes, which comprised 32% of our sales, are designed to be the most complete, well-balanced meal you can have any time of the day. With the right balance of proteins, fibers, and carbohydrates and the appropriate amount of vitamins and minerals, our Formula 1 shake is designed to do more than help you reach and maintain healthy weight, it is a nutritious meal.

As we discussed last quarter, we've engaged Lieberman Research to conduct consumer research over the next three years. This quarter's results were very similar to those in the second quarter. Approximately 5% of US households reported having purchased Herbalife product in the past three months. Which translates into more than 5.5 million households. Of those consumers who purchased Herbalife product of a more than 90% were outside our distribution network. According to Lieberman Research the consumers intent to repurchase was very strong two-thirds of those having purchased Herbalife product in the past three months indicating that we would definitely repurchase Herbalife products. In the third quarter, Lieberman also conducted research for us in Korea the findings were very similar to those in the US market.

We also continue to build our brand and our image. This is a process in which our product, our distributors, employees and vendors all participate. Through many sponsorships around the world, we continue to activate and authenticate our brand with a healthy active lifestyle both through athletes and sports teams. We received tremendous positive recognition for our brand this summer through our sponsorship of the Herbalife World Football Challenge. One of the largest and most successful soccer exhibitions ever staged in North America, it has brought together many of the world's most accomplished and celebrated soccer clubs to play in major sports venues across the US. This year there were approximately 350,000 people at nine games. The games are broadcast on ESPN, Fox Sports, Univision and in over 20 key markets and territories throughout the world.

We're also proud to have more than 50 Herbalife sponsored athletes competing in the London Olympics, with eight of our sponsor athletes taking the medals. Here in Los Angeles in September, we were the proud sponsor of the Herbalife Triathlon Los Angeles, for approximately 2,500 athletes participated including 400 Herbalife distributors and employees. Spending time with our distributors around the world is crucial to our ongoing success. Company-sponsored events are an important aspect of our business, as they provide platform for us to facilitate leadership-development among distributors, and train on business methods that drive sustainable growth, train on new product launches and foster an environment for distributors to collaborate among themselves.

This summer was filled with regional extravaganzas, offering the opportunity to spend time with thousands of distributors. This quarter we saw 22,000 at our three EMEA Extravaganzas, in Kiev, Ukraine; Barcelona; and Istanbul, Turkey. From there we headed to Macau for events with 12,000 distributors from 12 Asian countries. Not to be outdone, Mexico held two simultaneous Extravaganzas, a first for Herbalife. We had 20,000 distributors in Mexico City and 13,000 in Guadalajara. As we continue to foster the transformation of our business, our distributors are creating loyal customers and also building solid distributor organizations through daily consumption business methods and systemized training. They are selling deeper into their communities. They're going city by city, and they are living and activating and wearing the brand. Will continue to make necessary investments to stay ahead of our growth, improve upon our recent success, and as we say here, build it better every day.

Herbalife is built on a strong, successful 32 year foundation. But global mega trend of obesity coupled with our weight management, nutrition products, and of course our dedicated distributor activity, puts us in a great position to extend our financial success well into the future. I thank you for your time and now let me turn the call over to Des.

Des Walsh *- Herbalife, LTD - President*

Thank you, Michael. That third quarter is our fifth consecutive quarter of more than 1 billion volume points and was 17% higher than last year's third quarter results. As Michael mentioned, we continue to be very pleased with the momentum we see in the underlying trends in our business, as all six regions posted strong double-digit volume point growth. The main driver of our growth continues to be the consistent execution of the business methods that we have been discussing with you all for the past several years. The adoption and the expansion of daily consumption business methods, augmented with the expanded use of systemized training methods, throughout our six year graphical regions.

In 2011, we began implementing a localized focus on the Business growth with our regionalization initiative. Working with the distributor leadership to implement a city-by-city strategy. We have been seeing meaningful increased per capita penetration in the cities where we now have the unified distributor groups focused on training and brand development on the local level. Out of the top 3,000 most populated cities in the world, 2,481 of them are located in Herbalife markets. By the end of 2012, we expect to have more than 500 cities with localized strategy and planning teams with the opportunity to double this number over the next few years. As Michael mentioned, we estimate that in the third quarter 2012, there were approximately 43,000 commercial or nonresidential nutrition clubs.

We believe that approximately 40% of our overall volume is currently driven by daily consumption business methods. Distributor engagement continues to be strong, as evidenced by the average active sales leaders growth of 22% this quarter. This is our seventh consecutive period of greater than 20% growth in this metric. Which we believe speaks to the sustained momentum in our business. Now let me provide regional highlights and color on some key regions.

The North America region had another strong quarter, posting almost 16% net sales and local currency net sales growth, and 14% growth in volume points, each compared to the prior year period. New distributors increased 5% in the quarter and average active sales leaders increased 14% in the North American region, compared to last year's third quarter results. We estimate that there are approximately 4,200 commercial nutrition clubs in the region.

For the quarter, US net sales grew 16% and volume points increased 14%, versus the same quarter last year. Compared to the prior-year period, new distributors in the US increase 5% and average active sales leaders increased 15%. The growth in the US continues to be driven by the expansion of daily consumption business methods. As Michael mentioned, we just completed two North American extravaganzas. We saw more than 10,000 distributors in Long Beach and approximately 10,000 and St. Louis over the past two weekends. These events are the platform for facilitating training on products and business methods. The events are designed to foster and cultivate an environment where distributors can share tactics, ideas and business plans. The excitement and level engagement of distributors that these recent events was impressive. As they trained on various elements of daily consumption and the successes that are being experienced through implementation of the successful strategies in the marketplace.

Moving on to Mexico, local currency net sales for the quarter increased 21% and volume points increased 17%, each as compared to the prior-year period. For the third quarter, new distributors increased 8% compared to the prior year and average active sales leaders increased 21% for the quarter. This is the seventh consecutive quarter that the region has posted an increase in average active sales leaders greater than 20% over the comparable period of the prior year. As we have discussed in prior quarters, we are continuing to see more distributors in Mexico adopt a nonresidential nutrition club model, which is helping to expand consumer access to clubs and Herbalife products. In Mexico, we estimate that there are currently about 16,300 nonresidential nutrition clubs.

During the quarter, we launched Herbalife24 at the Mexican extravaganzas and as we have seen in the markets that have had the Herbalife24 products for a few quarters, the excitement generated by the line is attracting younger distributors more focused on building a customer base around a healthy, active lifestyle.

The Asia-Pacific region continues its strong performance. During the third quarter, local currency net sales increased 21% and volume points grew 17%, each as compared to the prior-year period. For the third quarter, new distributors increased 27% versus the prior year. The growth within the region continues to be driven by the expansion of daily consumption business methods and the high degree of distributor engagement. Average active sales leaders increased 29% in the quarter, over the same quarter in 2011. The success of daily consumption in the early-adopter markets within the Asia-Pacific region, has led to the proliferation of clubs and countries to out the region including India, Malaysia, Indonesia and Vietnam. Within the Asia-Pacific region, we estimate that there are about 10,500 nonresidential nutrition clubs.

Local currency net sales and the South and Central America region increased 29% and volume points in the region were up 24%, each as compared to the third quarter of 2011. Average active sales leaders in the region increased 29% over last year's third quarter. New distributors increased 12% for the quarter, compared to the prior-year period. Fifteen of the 17 countries in the region posted positive volume growth compared to the prior year. One of the things that we continue to be pleased with in the South American region is that daily consumption is moving out of the early-adopter markets in the region and is now driving sales throughout numerous countries in the region. We estimate there were approximately 8,900 nonresidential nutrition clubs in the region as of September 30, 2012.

Within the South and Central America region, we need to mention the stability we are continuing to see in Brazil. Brazil experienced volume point growth of approximately 7% in the third quarter, as both nutrition clubs and traditional business methods continue to experience growth.

Turning to EMEA, during the third quarter, local currency net sales increased approximately 11% and volume points in the region grew 10%, compared to the same period in the prior year. New distributors for the third quarter were flat with prior year period. Average active sales leaders in the region were up 14% in the quarter compared to the third quarter of 2011. We estimate that there are approximately 1,600 nonresidential clubs at the end of the third quarter, of which approximately 50% are located in Russia.

Within EMEA, Russia had another impressive quarter. Compared to the third quarter 2011, this quarter's volume points were up approximately 35% with 14% increase in new distributors. Russia continues to be a market that exemplifies the benefits of a market built on daily consumption, systemized training, a unified distributor leadership group, and a city-by-city focus. It has had strong volume growth for the past 10 consecutive quarters and new distributor growth for the past eight consecutive quarters.

The strength of these core metrics, illustrate the benefits created by building a business on a strong stable foundation grounded in daily consumption, coupled with systemized training and a local focus, city-by-city. This quarter, we launched the first automated sales center in Moscow and have been very pleased with the distributor receptiveness and utilization of the location. We are encouraged by the continued success of weight-loss challenges throughout countries in Western Europe and the growth of nutrition clubs in more southern markets. And like the US, we believe that we are seeing a more athletic distributor group in Western Europe really embrace the Herbalife24 product and brand, through adaptations of daily consumption that embrace the healthy, active lifestyle. Throughout the second quarter, we had numerous distributor groups from different areas of the EMEA region visiting Gen H distributors in the United States, investigating and learning about their business methods.

We are often asked about daily consumption and growth in Western Europe. The UK is a good example of how daily consumption can begin to change a market. As we have mentioned for the past several quarters, there is renewed excitement about the Herbalife business in the UK. This quarter, we experienced 56% growth in volume and a 70% increase in new distributors in the UK, our oldest market in the EMEA region, largely driven by the success of the weight-loss challenge concept and the distributors' focus on the healthy active lifestyle. Distributors there have also taken the Herbalife Fit Club concept and have begun implementing it throughout the UK.

Now let's turn to China, for a local currency net sales increased 39% and volume points grew 41% in the third quarter, compared to the prior year period. While we continue to believe that our sales leaders in China are making progress at culturating the concept of daily consumption, we believe that we're still working to fine tune the nuances of the daily consumption model that will work best in the market. We continue to see more nutrition clubs open, and while we're very pleased with the progress of the business in China, we remain cautious about expecting too much, too soon, from this market. We are focused there on building a sustainable business on a solid foundation of long-term customers. We estimate that there were approximately 1,215 nutrition clubs in China as of the third quarter. One of the key drivers to the growth in the region during the third quarter, was an increase in productivity of the existing clubs through the expansion of the customer base.

Before I turn the call over to John, let me take a minute to applaud our distributors for another very strong quarter. This quarter's results were a testament to their engagement, their resilience, and their continued focus on creating and mentoring new customers for our product every day and over time, converting many of those product users to distributors, who then go on to do the same. We believe that the momentum we have seen in our business, due to the tremendous daily consumption-based performance of our distributors supported by enhanced systemized training and our regionalization initiative, will continue. And that there is a long runway of opportunity ahead of us. Now let me pass the call over to John to review the financials.

John DeSimone - ***Herbalife, LTD - CFO***

Thank you, Des. I will start my prepared comments with a review of the third quarter results, followed by commentary regarding our guidance. For the third quarter, we reported net sales of $1 billion an increase of 13.6%, compared to the third quarter of 2011. As you all know we faced a pretty big foreign currency headwind in the quarter, which had an approximate 700 basis point drag on net sales. Some of the more significant currency headwinds include the Brazilian real, negative 25%, versus the third quarter of last year. The Indian rupee, negative 20%. The Mexican peso, negative 7%. The Korean won, negative 4%. And FX rate in EMEA region collectively, were negative 11%, versus the third quarter of last year. Looking to the fourth quarter, the headwind is behind us as currency is effectively neutral, versus the fourth quarter last year.

Gross profit margin in the quarter was slightly below last year, the approximately 20 basis point decline on the year-over-year basis was due mostly to the unfavorable impact of FX and country mix. Which was partially offset by savings associated with our seed-to-feed initiatives and lower inventory write-downs. Third quarter operating margin of 15.8% represents approximately 100 basis point decline, compared to the prior year. The decline in operating profit as a percent of sales, is due to the negative impact of FX, on a constant currency basis, operating margin would have been slightly above the third quarter of last year. On a year-over-year basis, SG&A was negatively impacted by approximately $5 million from the timing of events. One of our larger events that occurred in the fourth quarter last year, took place in the third quarter this year. Excluding this timing item, and China service provider payments, SG&A as a percent of sales improved slightly compared to last year's third quarter.

During the UPS, third quarter earnings per share of $1.04 was $0.17 better than results from a year ago. This 20% improvement in EPS was achieved despite a $0.15 headwind from currency. On a constant currency basis, EPS would've increased by more than 36%. Compared to guidance, third quarter EPS was $0.05 higher than the mid-point of the guidance range provided in July. This beat was formerly caused by higher volumes, as we exceeded the midpoint of guidance range by 33 million volume points. The benefit of higher volume was partially offset by higher than expected tax rate.

With respect to guidance for the remainder of 2012, we are raising both our revenue and earnings ranges, as compared to our previous guidance. Volume for the year is now expected to increase by 18% to 20%, with net sales expected to increase by 16% to 18%. We are raising our fully diluted EPS guidance range, adding $0.11 and $0.05 to the low end and high end of the previous range, respectively, resulting in a new 2012 guidance EPS guidance range of $3.99 to $4.03.

As I noted earlier, fourth quarter EPS guidance sees relatively no overall impact from FX, compared to last year's fourth quarter. While this year's full-year 2012 EPS guidance range includes an approximate $0.37 headwind from currency compared to 2011.

Moving to our 2013 guidance, we expect volume points to grow in the high single to low double-digit range. Accordingly, we are initiating fiscal 2013 guidance for volume points and net sales growth of 8.5% to 10.5%, and 10% to 12% respectively. We expect full-year EPS to be in the range of $4.40 to $4.55, per share. With respect to our initial 2013 guidance, please take note of our assumptions with respect to Venezuela. As I mentioned in April sometime, following the October elections, we expect formal devaluation of the bolivar. We believe it could happen in the first quarter of 2013, and have incorporated a change to the FX rate in our initial 2013 guidance.

While the timing and value of the devaluations, is not known, our guidance assumes a 10 to 1 exchange rate, beginning January 1, 2013. Also note that while we assume the higher Venezuelan FX rate for our ongoing performance next year, our guidance does not include any one-time impact from the likely devaluation. Overall, foreign currency including this impact from Venezuela which I just noted, has an approximate $0.10 drag on next year's guidance.

Moving to capital expenditure guidance, next year's range of $165 million $185 million, reflects the next major expansion in our seed-to feed-strategy. Our board approved a new East Coast manufacturing facility that will cost approximately $130 million. We anticipate that this facility will be complete and operational by the middle of 2014. We are currently negotiating with multiple sites and/or building locations and will update investors further when we have a definitive agreement. The majority of the facility capital is expected to be spent in 2013. This new facility is necessary in order to meet product supply needs and to in-source products currently made at third party contract manufacturers.

In addition to ensuring quality production, this should help inventory returns. Approximately 85% of our increase in inventory since last year's third quarter and year-end and sequential inventory growth since Q2 have come from product made at third parties. This investment in inventory has been necessary, given the significant growth we are experiencing in markets with very long supply chain lead times. Plus, buffer inventory necessitated by the execution of our vendor consolidation strategy to reduce the number of vendor partners to those that are capable of scaling with our growth. With respect to these new facility we believe that self-manufacturing will reduce lead times to those markets and allow more flexibility with the registration of products in foreign markets. Additionally, this new facility will be approximately 4 times the size with the comparable increasing capacity over our current facility in Southern California, including additional room for expansion.

Moving share repurchase, during the quarter, we repurchased $181.9 million of stock in the open market. This completed the repurchase agreement announced in May. Two comments with respect to share repurchase, Q4 and full-year 2013 guidance assumes $50 million of share repurchase per quarter. And second, as noted during last quarter's earnings call, the Board authorized a new $1 billion share repurchase program, expiring in 2017. The entire $1 billion is outstanding as of the end of the third quarter. Also noted during our last earnings call, was our belief that we have identified a strategy that would allow us to accelerate the repurchases beyond our consolidated US GAAP equity position. This process is complete and we now have the ability to repurchase stock beyond our consolidated equity position, should we desire to do so. Thank you. That ends our prepared comments. We will now open up the call for your questions.

QUESTION AND ANSWER

Operator

(Operator instructions) John San Marco, Janney Montgomery Scott.

John DeSimone - ***Herbalife, LTD - CFO***

Hi, John.

John San Marco - ***Janney Montgomery Scott - Analyst***

Hi. Did you say -- just double checking there were 43,000 clubs at quarter-end in total? And is it that calculated the same way as the 36,000 number you gave us last quarter?

John DeSimone - ***Herbalife, LTD - CFO***

It is calculated the same way, yes, just under 43,000.

John San Marco - ***Janney Montgomery Scott - Analyst***

Okay. In that context, I was hoping you could address product mix. The weight management product line, is growing a little slower than targeted -- nutrition and energy. It is just surprising given the all the data that we have in daily consumption's growth. Can you help support what is driving the product mix here, for me?

Des Walsh - ***Herbalife, LTD - President***

Hi, John, this is Des. I think what you are seeing, John, is that through the Herbalife Fit Club concept we obviously have increase adoption of other products beyond the core nutrition club product range. It also speaks to the fact that our nutrition club customers and see them coming every day to enjoy a shake, a tea, an aloe. But in addition that they are purchasing other products. I think what you see is it is a broad reflection of more consumer activity, but across a broader product range.

John San Marco - ***Janney Montgomery Scott - Analyst***

Is different products going through the same clubs or are these new clubs that are opening up that are just focused on products outside of that (inaudible).

Des Walsh - ***Herbalife, LTD - President***

Is probably both, John. What we have obviously, is that we have got whole group of new distributors who are combining the Herbalife Fit Club concept with Nutrition Club concept. So in those clubs, you actually have a broader product range but, also I think you have a maturing of existing clubs with greater focus now on consumption of other products outside the clubs.

John DeSimone - ***Herbalife, LTD - CFO***

And John, this is John, let me add that 51.4% of our volume this quarter came from nutrition clubs SKUs which compares to 51.1% last year so it is slightly up.

John San Marco - ***Janney Montgomery Scott - Analyst***

51.4% (inaudible) Formula 1?

John DeSimone - ***Herbalife, LTD - CFO***

Correct.

John San Marco - ***Janney Montgomery Scott - Analyst***

Okay. Very helpful, thanks. And then, last question, was just hoping you could address Western Europe. It seems of the few soft spots, you had globally, they tend to be in these markets where the economies are the weakest. Does this make you rethink the economic sensitivity of the business model? Or is it something unique about 2012? Or do I have it all wrong and you don't do the business economically insensitive?

Des Walsh - ***Herbalife, LTD - President***

Yes, so, no, John, what we see is this. Obviously Western Europe continues to be a focus for us but here is what we are really excited about it Western Europe. Our distributors are entrepreneurs. So they follow success. If you look at Western Europe, and you look at what is happening in the UK, what you see is our distributor leadership there two, or three years ago began to focus significantly on daily consumption business methods and specifically the weight-loss challenge concept. And that concept obviously, combined with clubs, combined now with Herbalife Fit Club has now resulted in tremendous growth in the UK. You see that 56% increase in volume points, in the third quarter, 70% increase in new distributors.

So because of that, that concept is obviously now being looked at and adopted by leadership throughout Western Europe. So we believe that what is happening in the UK is a leading indicator of what can happen in the other countries in the Western Europe. And so, that is why we are confident that the model is just as productive as ever. And that we are on the right strategy, as far as all of Western Europe is concerned.

John San Marco - ***Janney Montgomery Scott - Analyst***

Great, that obviously would be very positive. Thanks so much for the time.

Des Walsh - ***Herbalife, LTD - President***

Thanks, John.

Operator

(Operator instructions) Michael Swartz, SunTrust Robinson Humphrey.

Michael Swartz - ***SunTrust Robinson Humphrey - Analyst***

Good morning, everyone. I guess this question is directed to John. With regards to the 2013 guidance, if I kind of do the math, it looks like your are guiding for some margin pressure year-over-year. Could you maybe give us a more color on the moving parts there? Are there any one-time costs from the new manufacturing facility et cetera.

John DeSimone - ***Herbalife, LTD - CFO***

The major impact to margins next year is FX and the major FX contributor is Venezuela and the assumptions we are making with respect to that market which is a 10 to 1 exchange rate. Once you get beyond the FX, we are pretty close to margin neutral expectations for and next year. I think you have a second question which was some cost that may be in the model next year for new manufacturing operation. There are some, it is not very material so I would not be too concerned about that.

Michael Swartz - ***SunTrust Robinson Humphrey - Analyst***

Okay, great. Kind of longer-term, I guess, with the whole seed-to-feed initiative, and then this new facility that you are bringing online by 2014, is that facility included -- are the savings -- the potential savings from that facility included in that kind of 100 to 200 basis points outlook you gave in 2010? Regarding seed-to-feed? Or is this incremental?

John DeSimone *- Herbalife, LTD - CFO*

No, no it is included. That basis point benefit expectation included an entire seed-to-feed strategy that was multiple years. At that point in time, we knew we needed additional facilities. We did not know where. We have evolved that strategy to a one large facility on the East Coast. The primary objective of that facility is to stay in stock on high-quality products. We feel that the capacity is necessary given our growth profile. So that is still the primary objective of that facility, secondary objective is the financial opportunity.

Michael Swartz *- SunTrust Robinson Humphrey - Analyst*

And assuming that facility starts sometime in midyear 2014, when would you expect any kind of cost savings from vendor consolidation to show up?

John DeSimone *- Herbalife, LTD - CFO*

Well, vendor consolidation is partially a result of manufacturing -- self-manufacturing, so it was part of an overall consolidation that took place, regardless and independent of, self-manufacturing. But to answer the first question, we will not see a benefit from that factory until 2015. This is going to come up in mid '14 and then you've got to ramp it up and then have one inventory turn before we see the benefit.

Michael Swartz *- SunTrust Robinson Humphrey - Analyst*

Okay, great, thanks.

Operator

There are no further questions at this time I would like to turn the conference over back to Michael Johnson for any closing remarks.

Michael Johnson *- Herbalife, LTD - Chairman, CEO*

Thank you all very much, we realize for all of you this is probably a pretty tough time, tough time for a call, of course. We hope you and your families are getting through the storm without too much disruption. Our thoughts, of course, are with all of you. And of course with our distributors who are in the Midwest and the Eastern US. We are hoping that everybody is safe, dry and getting through this really unprecedented storm without too much harm.

You know, our business is incredibly strong, our momentum continues, our leaders are engaged, our management team's never been more motivated to focus that we are today. We know this is a tough time to have a call, but we want to thank you all for being on it. We are continuing our momentum, our progression forward. We're looking forward to seeing you next quarter to giving you even a better report. Thank you very much have a great, and dry, day.

Operator

This concludes today's conference you may now disconnect.

DISCLAIMER