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CORPORATE PARTICIPANTS

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PRESENTATION

Unidentified Participant

Good morning, everyone. Welcome to day two of Morgan Stanley's Global Consumer & Retail Conference. We're very pleased to have Herbalife with us here today, including John DeSimone, CFO and Amy Greene from Investor Relations. They have a very strong track record of delivering growth over the last few years, and we've got some yummy shakes outside that have been a part of that organic growth. So enjoy.

I'll turn it over to you.

John DeSimone *- Herbalife Ltd. - CFO*

Thank you. Good morning. Start with the Safe Harbor slide for those listening on the Internet. This is available on our website under the IR, Investor Relations icon. The journey today will be one where we share a little bit of a history of the Company, a little bit of foundational information about who we are, how we go to market. Then we'll talk about the growth drivers for the business and we'll start with the product.

And then we'll move on to daily consumption, which is a method to -- our distributors used to go to market that's driving a lot of our growth. And we'll differentiate that from traditional direct selling. We'll share some consumption-based metrics. I think there's been a lot of questions around consumption visibility in direct sellers and certainly within Herbalife over the last five or six months, so we've come up with some new data points that we think are interesting and relevant, so we'll share that today.

Then we'll look at a strategy that we call city-by-city, which is to take the new daily consumption distribution model deeper into the communities and how we do that, and we'll spend a few moments on that. Then we'll talk about some key infrastructure projects that we put in place to support the growth. One is coined Seed to Feed, which is a vertical integration strategy that we have and the second is an access strategy, which is how do we make our products more accessible to distributors, especially in emerging markets in an affordable manner. And then we'll talk about more recent financial performance.

First slide is historical EPS since 2008. There was a dip in 2009 when the economy weakened, but more importantly for us, it's when the dollar strengthened. We have a lot of cost denominated in dollars, so the strength or weakness of the dollar can have an impact on our P&L. We put a constant currency P&L on our website for those who are interested. And in 2009, we actually had, on a constant currency basis, EPS growth.

Over the last three years, you can see we've had steady growth including last 12-months of -- Q3 2012; we've had EPS of $3.88. And we jump to cash flows, this is my favorite slide. The top row is net income since 2007 and you can see we're at $1.7 billion and the bottom row, which is free cash flow, equals $1.7 billion. So this is a business model, we are, over a given period of time, net income and free cash flow effectively equal each other. There could be spikes when we make investments and next year is a year of investment for us as we build a manufacturing facility on the East Coast. But over a couple year period, this model holds true, this equation holds true.

And in the bottom bullet point, you can see that we've returned historically, prior to the last five months, nearly 100% of our free cash flow has come back to investors in one form or another, either dividends or share buyback with a over weighting towards share buyback, because we believe our stock is cheap. We are actually over 100% now, because we did accelerate some share buyback beginning in May.

In May, we did a $500 million repurchase authorization -- excuse me, $430 million repurchase agreements where we bought almost $430 million over three months. That exhausted the $1 billion authorization that was in place at that time and at the end of July, the Board reauthorized another $1 billion. So we expect to continue to buy back shares. What's in our guidance? You'll see at the end of this presentation is an assumption that we will buy back $50 million a quarter in shares, but the reality is we have the capacity to significantly accelerate that if we believe it appropriate.

This next slide looks at just our debt structure. You can see we're conservatively capitalized. Actually, that last column, we'll get updated. I think there's a mistake in there. We're less than 1 times debt-to-EBITDA over the trailing 12-months. So that will get updated on our website today. But just now we have our current capacity for debt, we have $1.2 billion credit facility. We are into that right now for $500 million, which means we have $700 million available that we can use at anytime. We don't anticipate a lot of capital needs over the next 12-months other than the East Coast manufacturing facility. So, most of that availability is there to accelerate a share repurchase if we deem it appropriate.

A little bit on the history of the Company. We are a weight management nutritional supplement Company. You'll see in the next slide that it's weighted toward -- pardon the pun, but it's over weighted toward weight management. We are 32-years old, I think that's an important fact that's under-appreciated in direct selling. I think longevity is important to legitimacy of a direct seller.

This Company was founded in 1980. We are in 85 countries, we have $3.9 billion in revenue over the last 12-months, and we use an MLM model, multi-level marketing model. Most of our distributors have never sponsored anybody, so they actually paid in a single level fashion, even though the economics from the Company standpoint is multi-level, that's an important factor, as most of the distributors who are in this business for either self-consumption or to earn a part-time living.

But there are distributors that do build organizations and that's 20% of our distributors and they are in a four -- they manage sales organizations and they get a royalty based on sales within their organization. But it is a small percentage of the overall distributor base that's in that portion of the business.

A look toward product, 62.5% of our sales come in weight management product, half of that category. So 30% of our overall sales are in the meal replacement shake category. I hope everybody had a chance to try the shakes, we have some samples made outside. I think it will give you a good feel for the core of Herbalife. It is the product that the Company was founded on 30 years ago, and it is, like I said, our number one seller, and it's the foundation for daily consumption, which I'll talk about in a few slides.

When you look to the right, targeted nutrition represents a little more than 20% of our sales, 23.3%. That is more traditional supplements [on part] health line, things that are condition specific type supplements. And then sports and energy is a category that we are developing strength in.

We want to stay complete line last year in the US and in parts of Europe and we will globalize that over the next three years and we think there's a big opportunity in the sports and energy business, but right now, it's only 5% of our sales. Outer Nutrition, 3.4% of our sales, that's skin care, it is an under-represented components of our product portfolio. It is an area we are developing and we expect to launch sometime next year of a complete line and that is an opportunity for the future.

So there's a couple of important slides coming up that really is the foundation for the growth that Herbalife's experienced over the last three years and what we think will be the driver for the next seven or eight years, which is daily consumption. And daily consumption is founded in the Formula 1 shake that I noted a moment ago, being a meal replacement, being positioned as a meal replacement from a selling proposition standpoint.

So when we talk about clubs in the next couple slides, the consumer of the shake is we internalize a strategy of steal a meal a day from fast food. If we can find a consumer who is already spending for $4 or $5 a day in fast food and haven't come to Herbalife for a meal, it becomes positioned as a replacement spend instead of a discretionary spend. When you think of -- traditionally, when you think of supplements, you think of supplements as being a discretionary spend. And when the economy is tough that's something that can get pulled back. We look at this as an economic savings for the customer and therefore it's something that positions well in a weak economy.

The most important slide, this is the most important slide. This is -- I call this reinventing direct sales. Okay. This daily consumption right now represents, you'll see in a couple slides, about 40% of our business are contracted to traditional direct selling. In traditional direct selling, distributors see their customers very infrequently. So pick any direct seller that you're familiar with and they're reps or distributors or whatever they call their sales force.

Their sales force interact with their customers once every couple weeks, once a month, once every two months, and they look for their customers to buy a significant amount of product very infrequently. And that's been the characteristic of direct selling for decades.

The model that our distributors are using to drive growth are different models where the distributors see their customers frequently and that's, like I said, the most important point in this model. When you see your customer frequently, there's a sense of socialization that takes place and that social interaction helps drive product compliance.

So when the distributor sees their customer frequently, they're making sure they're taking the product every day. When you take the product, you have a product result. That product result drives credibility, drives credibility for the product, credibility for the brand, it has a halo effect on the brand, which gives credibility to the other products. So the most important element of Formula 1 is that it works, if it's used properly.

And the way to make sure it's used properly is to interact with the person that's using it and that's the uniqueness of daily consumption. How daily consumption is, how our distributors use, the models that distributors use to see their customers frequently across a wide spectrum of, what we call, methods, distributor methods of operation.

This weight loss challenges, think of the biggest loser where people get together and weigh in frequently and then our weight loss challenge is, it's once a week. But it drives consumers to a fixed location where they see the distributor, they get weighed in and when they get weighed in, they presumably if they're on Formula 1, they lose weight. But it's a competition, it's motivation to help drive components on the product.

But if I jump further to the right, Nutrition Clubs, which is the predominant model for daily consumption. Nutrition Club is a fixed location in which a distributor or a group of distributors operate a social club where customers come in, pay a social membership fee and as part of that fee get some core Herbalife product on a daily basis.

So the way it works is, you come in the club, you pay your fee, and you get a cup and in that cup, you first get your tea, which is your caffeinated drink, which is an herbal tea, then you get your Aloe Drink, and then you get your shake. So you're getting three products, it's positioned as a meal. So it's positioning the products at a price point that's equal to one meal at a time.

So instead of having to buy a 30-day supply, if you want to get into Herbalife products and you have to spend $100 and you get those three core products for 30 days and you came home and you put it in your cabin and you would have self-discipline in order to take the product. Now you can come to an Herbalife club that's owned and operated by a distributor or a group of distributors, you pay just fee for that day, whichever day you show up and for that fee, you get a meal, you get an Herbalife meal.

So now it's -- [again, I] go back to the core meal proposition, it's now a replacement spend instead of a discretionary spend and it's much more accessible for people. And I use the word accessible, because there's not an affordability differential between a monthly -- the per serving cost on a monthly basis versus a daily basis, but it's like coffee. We used this in the past as an analogy.

When a consumer goes to Starbucks or Dunkin' Donuts, whatever coffee shop it is, at $2 a day, it's very accessible for people. It's an easy spend where if they had to go to -- at the beginning of each month and pay $60 for a month supply and get a card. Some people would do it, but some wouldn't do it, right, because it's just not $60 feels like a lot of money when it comes out of your pocket at one point of time whereas on a daily basis it's very attainable for people.

And that's the selling proposition now of the club within Herbalife is it allows consumers to buy just what they need for a given day, one meal at a time. And we think that's dramatically increased the accessible audience, the addressable audience of our product.

How much of our business goes through this model? The daily consumption model, it's still under 50%. The core of our business is still traditional direct selling. It's that infrequent contact point where you find somebody that can buy the product on a monthly basis that do it themselves, take it home and hopefully have the discipline to be successful. But it's not the driver of our growth. The driver of our growth is that 40% bucket becoming bigger, that 35% to 40% bucket of daily consumption, that's where the bigger opportunity is.

And daily consumption is a concept that started in Mexico within Herbalife in 2003. And it's been adopted by a handful of countries between 2003 and 2010. And for those countries that adopted daily consumption, we generally see between three and five times growth in that country. And currently there's about 40 to 45 markets that are just starting daily consumption.

That's really where the opportunity is. Mexico is still growing, the US, Latino market is still growing, a lot of the markets that adopted daily consumption between 2003 and 2010 are still growing. But the inflection point is coming from new markets that are starting to adopt daily consumption. That's where the opportunity really is for the next five to seven years. And it is the key core countries that offer us the biggest opportunities are the BRIC countries, Brazil, India, Russia and China and we'll add in the US non-Spanish-speaking market, which we call the general market.

The Spanish-speaking market has a penetration, it's about five times that of the non-Spanish speaking market in the US. And the non-Spanish speaking market in the US is now starting to adopt daily consumption. They started in 2010, and they are the ones that are driving the growth in the US right now.

A little bit on the consumer. We -- in 2010, we did a series of consumer research surveys at clubs. We did it in the US, Mexico and Korea. We're re-doing it now for this year and we'll have it for any presentations that take place next year. And in the US, which is the first row, the consumers that were coming to clubs, 55% of them came every day. So it talks about frequent contact point -- sorry, pressed the wrong button. So 55% come every day and 55% of the consumers have been coming longer than six months.

In Mexico was, greater than 50% of the consumers come to the club every day it's open and 45% have been attending for longer than six months. So they have a lot of frequency and a lot of longevity with the consumers through clubs. And in Korea, in 2010, clubs was a new concept in Korea, so they were early on. And they had greater than 30% of their consumers will go into the club every day and 30% attended longer than six months.

And another important element of the club that's not on this slide that relates to the US survey, 60% of the club members had found the club through a reference from a consumer they knew who went to the club. So the word-of-mouth spreads really well with the club environment, in a club model versus traditional direct selling, because now there is a fixed location. If I lost weight and Amy wants to know what I did is fixed location. I can take her too in the morning and she can get introduced to the product. So, it spreads word-of-mouth really well through clubs.

The metrics that are indicative of consumption, our visibility is always a question in direct selling. We have, I think, a lot more visibility than investors realize. Although, it is indirect visibility, it's not direct visibility like you would get in a food, drug mass channel. And some of the stats on this page were introduced in the last six months as just evidence of the type of visibility that we have.

So the first row looks at the core three products that are the foundation of Nutrition Clubs. Formula 1, which is the meal replacement shake, the herbal teas and herbal Aloe. In 2002, and it's the trend that's important here, right. You may not understand all the statistics, but you can understand the trend. In 2002, those three products represented 35% of our volume.

And last year and through this year third quarter, it represents more than half our volume. Why? Because that show -- because the expansion of daily consumption is driving our growth. And daily consumption of those three products are the products that are sold in clubs. And I think there's -- we've made clubs visible to investors. We have taken investors to clubs. Amy is consistently putting club [toward] together. I think it's important for somebody interested in this model to go see a club and you'll understand that within clubs, it is all consumption based. And therefore that growth is indicative of consumption growth. That growth in those three core products.

The next line, retention of sales leaders, which is how many sales leaders are in the business from what that -- come in the business are retained, it's an important measurement. A lot of people get into direct selling, a lot of distributors or reps or whatever different direct sellers call their sales force, get in and get out pretty quickly. They get in, they lose their motivation and they turn.

Our retention rate in 2002 was 27%, our retention rate in 2011, which we measured at the beginning of 2012 was 52%. So just about double, we think that's actually industry leading. I'm not sure everybody else discloses their retention rates, but it's indicative of success built off of consumption or you couldn't retain those people.

Sales leader activity rate, that's a new metric that we started to -- introduced two years ago, which is -- it's not how many new people you are bringing in, it's how many active people you have in the organization, it's all about people engaged in the business. And the way the metric works, it looks at how many sales leaders are ordering in a given month versus the pool of sales leaders we have in the system. And you can see the average in 2002 was 37%, the average this year was 56%. And over the last couple of years, sales leader activity levels have been a leading indicator of retention, which, of course, make sense. [Seeing] when people are active, they're retained.

5K sales leader qualification percentage, which is a new method that was launched in late 2009 in Herbalife that allowed sales leaders to build to that sales leader status over a long period of time, instead of very short period of time. We like people to come in and build their way up slowly and that new model represents 24% of our sales leaders this year.

The last two are also important metrics. The second to last one is how much of our volume is coming from people qualifying to become a sales leader, right. That's something I think that's been questioned a lot over the last six months. Ten years ago that was 27% of our volume, so more than a quarter of our volume is coming from people joining if you think of that. This year that's 14% and that doesn't mean less people are joining. I think that's been a misunderstood stat when we first put it out six months ago.

The reason why overall -- new sales leader volume is so much smaller as a percent of overall sales because the foundation of the business is stronger, because that retention rate number is so much higher. When your retention is lower and the people that came in last year are dropping off, the people coming in this year make up a greater percentage of your sales. When your foundation is stronger, the new people coming in makeup for a smaller percentage of your sales.

And then lastly buy back, any distributor who doesn't have success with the business and once they get out will buy back their product, that return rate 10 years ago was 2.2%, it's down to 0.2% and that's with no structural changes in the return program, other than in the last six months we've got rid of a 10% restocking fee. There's always been a 10% restocking fee for somebody who return product that no longer exists. So we've made it easier for people to return product, if they're not successful with the business.

Little bit of city-by-city. City-by-city is our approach to taking what we know works, which is daily consumption and driving it into the community at a deeper level. And we did identify specific cities where we are under-penetrated and within those cities we try to unify our distributor leadership, have them take responsibility for this city from a branding standpoint, make sure that they have the appropriate meetings and training because when the new distributor comes into business, the first 90 days is the most important.

If they're successful in the first 90 days, their retention rates are really high. To make sure they're successful in the first 90 days, they have to be trained, which means the city has to have a training mechanism. So when somebody gets in they can learn the business. And that is one of our bigger opportunities over the next five years is to take the model that we know works, that we know drives growth into local communities.

Some of the infrastructure requirements, Seed to Feed is a strategy we launched three years ago to be vertical. We currently manufacture between 30% and 35% of our products of our inner nutrition products, the products that are consumed inside the body. We would like that to double over the next three to four years. As part of that strategy, we are building a manufacturing facility or buying. We are in negotiations with more than one party right now, on an East Coast facility that will be operational sometime in 2014.

And then equally is important for us is in our daily consumption business distributors are looking to turnover their product pretty quickly, have more of a just-in-time inventory approach on their end. So they don't have to buy a lot of inventory, which means we need to make sure the product it's easily accessible for our distributors. We've done that in multiple ways. We partnered with a retailer in Mexico that's got 300 different locations and the way it works in Mexico as a distributor calls the company pays Herbalife for the product and then goes to the retail and picks it up.

In other markets, we partner with third-party logistics companies, they have fixed locations. And in some markets we're testing an idea now that's think of a Herbalife ATM, where it's like an ATM about the size of space between these two columns that has about 40,000 volume points of product in it, you have to be a distributor to get into that room, you get in that room you order your product from the machine, the machine dispenses the product, kind of like the Best Buy machine at the airport, it's much bigger. And then those locations are physical locations, are electronic locations.

In Oracle, we can see the movement and then we can replenish those machines at night. We're testing that in Russia, in Moscow right now. Moscow is a unique city that has a substantial amount of people, but has huge traffic issues. It's a very cash-oriented economy, so a lot of people on one side of Moscow, who want to participate in Herbalife can't order product through the phone, because they don't have a credit card. So they have to get to the other side of the city, which may take three hours and then three hours to get back, it makes it very difficult to be an Herbalife distributor.

So what we've done is, we put machines around Moscow, where they can go and get their product quickly and then we can go around and replenish it at night when there is no traffic. So, it's an interesting proposition for us that we're testing right now. And we think in a lot of emerging markets it offer us a lot of opportunity.

If I move on to some key metrics, some financial, some distributor-based metrics. Net sales, this is our third quarter now -- third quarter results. Net sales were up 14%, volume points were up 17%. We certainly had a currency headwind in the third quarter. We don't have that in the fourth quarter; if we do it's minimal.

New distributors in the business were up 15%, new sales leaders were up 16% (sic- see slide 17), average active sales leaders were up 22%, that's the more important metric. How many people are active in the business? And that's up 22%, you'll see a slide that shows over 20% now for, I think, six straight quarters and the retention rate, which is only measured once a year. So this is now six months old -- eight months old, is up 310 basis points over the prior year.

Our results have been very -- our growth has been very broad based, you can see every region in the third quarter was up double digit. Again, the growth is being driven by the expansion of daily consumption. When we look at distributor engagement. This is the average active number, you can see now it's actually been seven quarters we've been in excess of 20% growth, which is a leading indicator for us of our volume opportunity in the near-term.

Net sales, so we had a little bit of a headwind in Q3. Q3 2012, we're over $1 billion for the second consecutive quarter that compares to under $900 million in the prior year. On a constant currency basis, we would have had another $63 million in revenue.

And on EPS standpoint, first column on the left is last year $0.87, the third quarter reported this year was $1.04. On a constant currency basis, it would've been a $1.19, we had $0.15 headwind in the quarter. A little bit on our guidance, our guidance for Q4, which is the first two columns, volume point growth 13% to 15%, net sales growth 17% to 19%. So you can see it's not a currency headwind. EPS, $0.97 to $1.01, CapEx is $50 million to $60 million and effective tax rate is [$26 million to $28 million]. That $50 million or $60 million includes some spending on the East Coast manufacturing facility. We expect something to be done in the fourth quarter that may not happen, it may get pushed to next year, but that's inclusive in that number.

When we look at -- I'll jump to the far right, which is next year. We have 8.5% to 10.5% volume growth, so high-single low double-digit volume growth. Net sales growth a little north of that, EPS $4.40 to $4.55. CapEx, again, a little spiky, a little higher next year than we used to, we generally -- our CapEx is around 3% of net sales. Next year we think it'll be closer to 4% of net sales, because of the East Coast manufacturing facility, so that would be a one-time spike.

And the effective tax rate, pretty close to what it's been running 26.5% to 28.5%. I would say that what's not on this slide, but that was in the earnings release is there are some unique assumptions for Venezuela [over here]. We don't have to talk about it or if we want to, we can talk about at the next room. But basically, there is a devaluation coming, there will be a one-time impact when EBITDA devaluation happens, that's not in the number. But there is a -- on a go-forward operating basis, we are assuming a [10 to 1] bolivar to dollar exchange rate for next year's earnings.

And lastly, we're just about out of time. Just look at our history. Other than 2009, of course, when everything went haywire in the economy, pretty consistent growth. We could take this back actually 20 years -- 22 years to -- of 19 in the last 22 years, we've had growth. So it's pretty sustainable. I think that's been a question, sustainability has been one of the core questions over the last six months. We certainly have a history of strong growth and we think we're still just getting started, and especially in the markets that are now just starting to adopt daily consumption, that's really where the big opportunity is.

And to finish where we started, we went a little bit over Herbalife's business, over our go-to-market strategy, our product portfolio, our growth drivers, which again is just -- our growth driver is not in new product, it's this new distribution methodology called daily consumption, it's the expansion of that globally, that's the key driver for our growth.

And with that, I think, we're out of time. So I thank everybody for attending. Please come to the breakout, if you have questions. Happy to answer questions. Thank you.