

FINAL TRANSCRIPT

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HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

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May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for joining the First Quarter 2005 Earnings Conference Call for Herbalife Limited. On the call today is Michael Johnson, the company's CEO, Greg Probert, the company's COO and Rich Goudis, the CFO. I am now going to read the company's forward-looking statement before management's prepared remarks.

Except for historical information contained herein, the matters set forth on this earnings call are forward-looking statements. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including any projections of earnings, revenue, or other financial items. Any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new services or developments, any statements regarding future economic conditions or performance, any statements of belief and any statements of assumptions underlying any of the foregoing, forward-looking statements may include the words may, will, estimate, intend, continue, believe, expect or anticipate and any other similar words. Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements.

Our future financial condition and results of operations as well as any forward-looking statements are subject to change and to inherent risks and uncertainties such as those disclosed on this earnings call. Important factors that could cause our actual results, performance and achievements or industry results to differ materially from estimates or projections contained in forward-looking statements include among others the following: our relationships with and our ability to influence the actions of our distributors, adverse publicity associated with our products or network marketing organization, changing consumer preferences and demands, the competitive nature of our business, regulatory matters governing our products including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program, risks associated with operating internationally including foreign exchange risk, our dependence on increased penetration of existing markets, contractual limitations on our ability to expand our business, our reliance on our information technology infrastructure

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

and outside manufacturers, the sufficiency of trademarks and other intellectual property rights, product concentration, our reliance on our management team, product liability claims, uncertainties relating to the application of transfer pricing and similar tax regulations and taxation relating to our distributors. I will now turn the call over to the company's CEO, Michael Johnson.

Michael Johnson - Herbalife Limited - CEO

Good morning everyone. Thank you for joining our call today. I'm really excited to be on our call. As you know, just two weeks ago we celebrated Herbalife's 25th Anniversary at our worldwide extravaganza in Atlanta. Several of you joined us there. I hope you had a good time and enjoyed the festivities. At this event, we set several records. We had the highest event ticket sales ever for an Herbalife meeting. We had the highest number of on-site registrations; we had the highest level of event product sales, somewhere over \$5 million. We had 5,000 Team Herbalife participants in our 5K run through the city of Atlanta. Man, did we tie traffic up that morning! We had the biggest fundraiser for the Herbalife Family Foundation, raising over \$1 million. We launched our new skin care line, NouriFusion in 23 countries. We launched LIFTOFF, soon to be a brand name and a household name which is our entry into the energy drink category.

We are extremely honored that Senator Tom Harkin of Iowa was able to speak at our general session. He's a long-time supporter of the dietary supplement industry and a great friend to Herbalife. Our President's Team and Chairman's Club members mentored and motivated distributors to help them build larger, stronger businesses. Distributors shared inspirational stories of achievement and courage from overcoming obesity to providing more stable financial lifestyles for their families. Our distributors were educated about products and science, business practices and sales techniques. We all reaffirmed our commitment to work together and build on the 3 R's which is our, of course, mantra in our company and it's called Recruiting, Retailing and Retention.

We challenged our distributors and our employees to double our sales in 5 years. Our energy levels hit a new level of intensity and our distributors are motivated and excited to build new businesses and to help people do what we do best at Herbalife is change people's lives. More importantly, we built trust and confidence and when you align trust with confidence, it creates momentum which is reflected in the turnout in Atlanta and in our financial performance that we will review with you today.

Let me take a few minutes and share with you some of the highlights from the first quarter and then I'm going to turn the call over to my partner Greg to provide an update on our five key strategies and business segments and finally to Rich, who will take you through the numbers.

The first quarter of 2005 set another record for quarterly performance in the company's history. We achieved a higher level of net sales and operating income than in any other quarter in previous times. Compared to the first quarter of 2004, our net sales were \$372 million, increased 15% and our operating income increased 39%. As Rich will elaborate in our financials in just a minute, let me give you a few highlights. We achieved double digit net sales in the Asia-Pacific, up 30% and the Americas including the U.S. increased 26%. Europe grew 6% while Japan declined at the slowest rate in 2 years, down 10% compared to 2004. Our top ten countries, the USA, Mexico, Japan, Taiwan, Brazil, Italy, Germany, The Netherlands, Spain and Korea, comprised 67% of our total net sales and were up 14% versus the first quarter of 2004. Net sales in the U.S. increased 4.4%, which is ahead of our expectations and consistent with trends in other turnaround markets that have solid country management working with engaged distributor leaders. The number of new U.S. supervisors in the U.S. was up 16%. The decline rate of total U.S. supervisors has slowed from 6% in the fourth quarter to 2% in the first quarter. Net sales in Korea increased in the first quarter continuing to return to growth that began in late 2004. The number of new supervisors increased 46% year over year in the quarter. In Japan, net sales declined 10% in the first quarter compared to the same period in 2004 which is the lowest decline rate since the first quarter of 2003.

Our top ten products comprised 66% of our business, an increase of 12% versus the first quarter of 2004. This reflects growth and a broader range of our products. In terms of net sales, Weight Management comprised 43% of our business and increased 13% versus 2004. Inner Nutrition comprised 41% of our business and increased 9%. In Personal Care, our skin care lines, our

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

hair care lines and our vitamin C line comprised 16% of our business and increased an astounding 41%, reflecting the positive effects of our distributors using the Total Plan Business Method. We were upgraded by Standard and Poor's and Moody's, reflecting positive response to our recent recapitalization. We continue to strengthen the trust and confidence among our distributor leadership on a global basis. In February, we hosted a special U.S. President's Team Meeting at which management and members of the President's Team in the U.S. were able to exchange ideas and provide feedback on the initiatives planned for 2005 and beyond. This was done to enhance the company's three R's: Recruiting, Retailing and Retention. We are extremely pleased with the turnout and the exchange of ideas present at that meeting.

We announced the planned introduction of our Business Method Tools, our Direct to Consumer Platform, and our new products for 2005. This interaction with our distributor leaders is critical to the success of implementing our strategic initiatives. We expect that the Direct to Consumer Platform will roll out in 2006. This platform will allow our distributors to leverage our infrastructure while they spend more time increasing their retail sales and recruiting of new distributors, which will ultimately make them more productive and strengthen their financial performance and their businesses. At the same time, this platform will allow distributors and the company to better understand the needs of our end customers, which should help us be more responsive to their needs.

Now China; everyone is very curious and wants to know about China, and I will tell you we remain close to the ongoing developments in China regarding the approval of the final direct selling regulations. As you know, China currently is a very small percentage of our company's revenue and we believe it provides an opportunity for substantial growth in 2006 and beyond. We are creating the framework for a successful launch in China, which is expected to begin in the second half of this year. Greg will elaborate on his recent trip to China and his trip to Washington, D.C., yesterday where he met with the Secretary of Commerce, Carlos Gutierrez, and of all the developments that are taking place as it relates to China. That will come in Greg's section in just a minute.

As we continue to provide leadership in the Weight Management and Nutrition categories, we have rolled out our upgraded ShapeWorks Program in parts of Eastern Europe in the first quarter. As you know, obesity is a global epidemic and we know the ShapeWorks Program provides an ideal solution to overweight consumers. Niteworks, our product based on the science of Nobel Laureate, Dr. Ignarro, who discovered the benefits of nitric oxide in the body was launched in Taiwan during the first quarter. It will roll out to 14 additional countries throughout 2005. Niteworks is already a top-ten selling product for our company.

Building on our product portfolio, we entered the energy drink category with the launch of LIFTOFF. On our IPO road show and at several investor conferences we indicated that we were launching an energy drink. We launched it in Atlanta and the distributors, they love it. Acceptance of new products by distributors is vital and the product is a bona fide hit. It is available in the U.S. and we anticipate its introduction in other markets throughout 2006 and 2007.

We recently announced the appointment of Dr. Luigi Gratton who is an MSD, and MPH and an MD, as vice president of our medical advisory board, reflecting our commitment to investing in distributor product education. Dr. Gratton, who was a member of the UCLA Track Team, he earned his undergraduate degree in Science and a Master's in Public Health from the University of California at Los Angeles and then he received a Medical Degree from Mount Sinai Medical School of New York University.

We also announced yesterday the addition of Dr. Yoshio Yoshimoto, MD to serve as Chairman of the Scientific and Medical Advisory Boards for Japan. Dr. Yoshimoto will support and provide guidance on product research and development activities.

And finally we announced Dr. Ryuzaburo Tanino, MD as member of Japan's Scientific and Medical Advisory Boards. We are extremely gratified by the prestige and talent of our physicians that comprise our Medical and Scientific Advisory Boards. Dr. Gratton, Dr. Yoshimoto and Dr. Tanino will also focus on training distributors by speaking at leadership and training events in Japan and throughout the world. We welcome them to our Herbalife family.

On our last call, we communicated a number of key new hires. I'm pleased to report that the bench strength in our management team continues to expand, and it has expanded greatly in the first quarter with the following individuals joining our team:

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Melanie Hayden, our General Manager for Canada, with over 25 years in direct selling industry experience spearheading sales, marketing, operations and product development in such companies as PartyLite, Mary Kay and Watkins. In fact, at Mary Kay she was a distributor and one of the top ranking distributors in the business. Bonnie Cogman (ph) our Vice President of World-Wide Marketing, formerly Vice President of Strategic Marketing at DMX and Vice President of Advertising and Marketing at Barney's in New York. Bonnie and her team will enhance myherbalife.com experience for our distributors and will be in charge of all of our Internet commercial activities. Vlad Hadji, our new Country Manager for Russia brings with him over ten years of marketing and public relations experience in Russia. Frank Lamberti, who many of you have met is our Vice President in Investor Relations and has over ten years of financial planning experience. He led the planning and analysis function at Rexall Sundown and adds relevant experience in the dietary supplements and MLM industries.

Following the record year of 2004 and starting in 2005 with a record quarter, we are obviously excited, but we remain focused on continuing to invest in our business and executing our five key strategies to make Herbalife even stronger for the future. We will continue to implement broad reaching growth initiatives intended to increase recruiting, retailing, and retention opportunities for our distributors. So gentlemen and ladies at this time I would like to ask Greg to provide you with a key update of our strategic initiatives for 2005. My partner Greg Probert.

Greg Probert - *Herbalife Limited - COO*

On the last call I introduced our five key strategic initiatives. On this call I'll start with an update on those initiatives and then I'll conclude with an update on our core and focus markets, which include both our high flyers - Brazil, Mexico and Taiwan; and our turnaround markets - the U.S., Japan and Korea.

Now to update you on our key 2005 initiatives. Let me start by reminding you of the top 5 priorities for our management team this year, which all are vital to the long-term growth prospects of our company. One, our distributor strategy, two, our customer strategy, three, our product strategy, four, our China strategy and finally five, our infrastructure strategy. Our distributor strategy continues to be the single biggest catalyst for our top and bottom line growth over the next several years. Distributors are our number one priority. Our management team remains distributor focused and we prioritize our investment to substantially enhance the ability of our distributors to improve their recruiting efforts, increase their ability to retail our products and extend the life cycle distributors through retention initiatives.

Two programs, the Nutrition Clubs and the Total Plan are catalysts for expanding and strengthening our business on a global basis. Nutrition Clubs are a planning party concept, which allows distributors to penetrate more deeply into the lower income segments of the market. Herbalife distributors developed this concept in Mexico and the company is working closely with distributors to expand these clubs globally.

Currently Nutrition Clubs are operating in Mexico, Indonesia, Brazil, India, Jamaica, South Africa, The Philippines, the U.S. and Bolivia. Nutrition Clubs assist our distributors in penetrating new markets but more importantly expand deeper into existing markets.

In the first quarter the company implemented distributor training in these markets, designated and designed training material, introduced lead distributors to this new program to communicate best practices and help ideas globally. This level of cross training and spreading of best practices is a new concept to Herbalife, but we realize the best and most innovative ideas will come from our distributors.

The Total Plan is a low-cost lead generation method where distributors utilize our personal care line of products and offer consultations while obtaining referrals. This practice was created by distributors in Brazil and the company is helping distributor transplant the concept around the globe. In fact, as Michael stated earlier, we upgraded our outer nutrition line with the introduction of NouriFusion at our Atlanta Extravaganza, which further adds excitement and consumer interest in Total Plan concepts around the world.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

The Total Plan is a fundamental part of our strategy to more deeply penetrate existing markets using our outer care product line. We introduced a NouriFusion line to 23 markets in Atlanta and will continue to roll the line out to other markets in 2005 and 2006. We developed our promotion around the NouriFusion line and the Total Plan concept for Atlanta where distributors could buy the entire NouriFusion line with a piece of luggage that accommodates all the supplies needed for the Total Plan presentation and consultation, literature and of course, two slots for our flagship ShapeWorks Formula One and Personalized Protein Powder.

As Michael mentioned earlier we are substantially upgrading the myherbalife.com website. This website provides distributors with recruiting and retailing tips, locations of training seminars and a forum to exchange best practices with each other. To communicate the message of the Three R's through all levels of the distributor organization, the redesign will incorporate My Recruiting and My Retailing themes into materials posted on the site. The new myherbalife.com site will roll out in the U.S. and to other markets around the globe. Furthermore, we are addressing business systems and tools, which will provide distributors with downline reporting capabilities. This type of reporting will help distributors target where in their organizations they need to provide support, training and mentoring. We remain committed to helping our distributors build their businesses more efficiently and provide enhanced services to their existing customers. We are also investing in branding initiatives, which is critical to the success in retailing our products and facilitating the recruiting of new distributors.

In February, we sponsored a Toray Tennis Tournament in Japan. This event attracted over 50,000 spectators and the sponsorship generated over 19 million impressions. In March, we entered into an agreement with the AVP Pro Beach Volleyball Tour where LIFTOFF was named the official energy drink of the tour. This sponsorship is critical in creating demand for LIFTOFF, helping our distributors with their retailing initiatives and introducing Herbalife's innovative products to a new market segment.

In Atlanta, we introduced Team Herbalife, which is an entire active wear line of clothing for our distributors to proudly display the Herbalife brand name and logo. One of our President's Team Members re-stickered his race car with the LIFTOFF logo which is another example indicating how we are encouraging our distributors to utilize our brand logos.

To improve distributor retention we augmented the re-qualification methodology for supervisors. Improving retention is a key initiative as a 1% improvement in retention equates to approximately \$0.03 per share. In 2004, we tested a new supervisor re-qualification process and we were very pleased with the results retaining approximately 10,000 supervisors and turning over 10 million incremental volume points throughout the year. We extended this change for 2005 allowing supervisors who purchase at least 4,000 volume points during the previous twelve months to automatically re-qualify as a supervisor and retain their 50% price discount. And like last year, we retained an additional 10,000 supervisors, bringing our total after re-qualification to 201,000 our highest year ever; an 11% increase over the same period in 2004.

Our customer strategy is a longer-term initiative to accelerate revenue and profit; creating a larger sustainable and predictable consumer base is important to building a stronger core business for our distributors and the company. During the quarter we made progress toward defining our business needs, selecting a service provider and developing a rollout platform for integrated direct to consumer business platform that will allow consumers to order directly from the company while preserving the financial and business relationship with our distributors. Our distributors are very excited about this tool. We plan on testing the system in the fourth quarter and begin rolling it out in the first quarter of 2006. This initiative is designed to improve the ability of our distributors to retail our products while increasing their productivity as they leverage the technology and automated infrastructure of the company.

Our new product strategy is important as for both our distributor and consumer strategies. As Michael mentioned earlier, we had two significant product launches at our 25th Anniversary Global Extravaganza -- LIFTOFF and NouriFusion. LIFTOFF is a proprietary blend of ingredients in a unique delivery form that will allow portability of a great tasting, sugar-free energy drink that promotes mental acuity and battles fatigue. Because of its unique formulation, we have applied for several patents on this product. The product was launched in the U.S. and will rollout to other markets next year based upon product registration and lead times. We are supporting the marketing of this product with the AVP Volleyball Tour Sponsorship where distributors will set up tents and provide samples, retail the product and of course recruit new distributors into the business. We expect this

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

product to support recruiting activity and more importantly help us more deeply penetrate our Generation H distributor segment. It is important for us to remember that Mark Hughes was only twenty-four years old when he started this business. This under 30 age group of people is vital to the long-term success but continues to be recruiting younger distributors. Our Generation H distributors are young, motivated, Internet savvy and share great ideas. They are our future and we will invest in them and LIFTOFF is a perfect product to introduce the Generation H segment to our company.

Our NouriFusion line is a vitamin based skin care line supported by science-based research. Along with Vitamins A, C, and E these products incorporate natural ingredients and new technologies to provide environmental and stress protection. Research was conducted with thousands of our distributors through focus groups and we found that 34% of them purchased personal care items from other companies. This presented us with an opportunity and we responded with the launch of NouriFusion. The personal care category is a successful category for several direct selling companies and as you know only 16% of our sales are derived from this category. With NouriFusion we are now better positioned to increase sales of our outer nutrition category. As an added benefit, NouriFusion replaced our existing line at slightly higher gross margins. We launched NouriFusion in 23 markets and it is scheduled to roll out into other markets throughout the remainder of this year and 2006, and finally the NouriFusion line is a wonderful complement to the Total Plan program. We now have a fresh product line to enhance this innovative, lead generation program.

Last year we began to regionalize the product development process in an effort to better link local customer needs and our product development priorities.

The recent additions of Dr. Yashimoto and Dr. Tanino of Japan to our Medical and Scientific Advisory Boards are further examples of our commitment to making this successful. And lastly, we continue to work very closely with Dr. David Heber and Dr. Louis Ignarro, a Nobel Prize laureate, and the rest of our MAB and SAB to help develop new products for 2006 and beyond.

Now to China. We continue to monitor the developments regarding the regulations for direct selling in China. In January, I attended the CEO conference hosted by the Direct Selling Association in Beijing to express our interest in that country and reinforce the industry's position to encourage the Chinese government to adopt the global standards for direct selling. The conference was effective in sending the Chinese government a unified message. However the delayed release of the direct selling regulations has created uncertainty in the marketplace.

Additionally, we continue to work with the U.S. government to exert pressure on the Chinese government to issue direct selling regulations that are compliant with WTO requirements.

Yesterday, I joined several other senior representatives from companies in the industry in a meeting with Secretary of Commerce, Carlos Gutierrez, to explain the industry's position and to solicit his support in upcoming meetings with Vice Premier Wu Yi. Currently we believe the regulations will be issued for final comments in the next 90 days.

The delayed timing on the regulations has not impacted our original strategy, which is to be one of the first companies to obtain a direct selling license in China. As a result of the delay, we have decided to execute a bridge strategy that will allow us to increase our presence in China under an expanded retail model until we can convert to the final direct selling model. As such, we are investing in key elements, which we believe will be necessary to implementing our strategy. We are expanding our plant capabilities in Suzhou, ramping up for the immediate imminent launch. We recently opened our headquarters in Shanghai, aggressively hiring key positions. We are staffing our provincial hubs with sales, marketing and government affairs specialists. We are executing a communication strategy of our local Chinese distributors to prepare them for the conversion to the new model. We have more than doubled our licensed products in the past year. We expect to have over 25 products ready for the summer launch and will continue to build our product portfolio over the next few years. We are actively leasing key locations to open retail stores in four to six provinces beginning in the third quarter of this year. We remain confident that we will be in a favorable position to capitalize on this market. We are active participants in all meetings held by the Chinese government. We continue to maintain strong government relations and we will continue to invest and manage to an approximate \$10 million operating loss this year.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Once the regulations are issued and our direct selling license is obtained, we expect to convert our flexible model within six to eight months. And therefore, 2005 is a year of building our presence in China. For 2006 and beyond we anticipate as being well positioned for China to be a significant contributor to our top and bottom line growth.

And finally, our infrastructure strategy. We continue to invest in technology infrastructure as well. Our rollout of Oracle globally will continue in 2005. Our Supply Team Management module is up and running. Our Distributor Management and Order Management module will go live in several large countries this summer. Once implemented this will provide timely, standardized reporting with one global chart of accounts and enhanced management reporting. We expect the complete rollout of Oracle will take us into 2007, as we believe having all of our information in one system will be required to better manage the global complexity of operating in 59 countries around the world.

Additionally, analysis tools are being developed to help provide distributor access to information and analysis to operating management in a more timely manner. We will continue to invest in our web presence, our business tools for distributors, a direct to consumer platform and most importantly to support the expansion of our business in China. Many of the investors who came to Atlanta had a chance to meet our executives. In order to continue to recruit, nurture and develop future leaders of our company, we have initiated an expansive organizational development program in company secession planning and leadership development. We expect to invest approximately \$35-\$40 million in capital in 2005 and approximately \$25-\$30 million in capital in 2006.

Let me now give you an update on our key markets.

Core markets. Our core markets comprise 40 countries and are defined as countries that have been opened for at least 5 years. In the past 5 year periods, these countries have had a CAGR of 9%. In the first quarter, this group of companies comprised 48% of our net sales and increased 8.8% versus the same period in 2004. One of Herbalife's competitive advantages is that we are geographically balanced. For example, in the first quarter, Europe contributed 39% of net sales, the Americas contributed 38% of net sales and Asia, including Japan, contributed 23% of sales. This geographic balance minimizes the impact of volatility from any one country or region. We believe this is important investment criteria. Periodically, countries in this group will grow or decline, but the balancing of geographies allows our management to focus on countries that are materially impacting the business, which takes us to our focus markets.

Our focus markets fall in two categories. Turn-around countries, such as the U.S., Japan and Korea and those referred to as "high flyers," which are Brazil, Mexico and Taiwan. In Mexico, our number two market based on volume points, volume was up 71% in the first quarter versus the same period of 2004. We attribute this growth to the expansion of Nutrition Clubs along with strong country management and distributor leadership that is highly engaged.

Brazil, our number three market, volume increased by over 31% in the first quarter versus the same period of 2004. We attribute this strong growth to expansion of the Total Plan, strong country distributor leadership, a highly effective country management team and a solid product portfolio.

In Taiwan, our number four market, volume increased 48% in the first quarter of 2005 versus the same period of 2004. Highly engaged distributor leadership, strong country management and a good product lineup along with a favorable regulatory and economic environment is a catalyst for the strong sales growth.

While we enjoyed strong double digit growth in these three large markets, we remain very focused and committed to turning around and improving performance in the U.S., Japan and Korea.

In Korea, our number ten market, volume was flat in the first quarter compared to the same period of 2004. If you remember, last quarter, Korea's volume was down 1% year-over-year; therefore the trends in Korea continue to show improvement. We began implementing turnaround plans in the fourth quarter of 2003 and we are pleased with the progress to date. We expect Korea will continue the favorable trends and report positive year-over-year growth in 2005.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

In the U.S., our number one market, volume points in the first quarter increased 3% versus 2004. We are very encouraged by the earlier than anticipated improvement. We believe the U.S. continues to be a viable direct selling market and therefore we are taking the necessary steps to enhance these results. We realize that one quarter does not declare a turnaround, but the leading indicators are all positive. For example, we experienced a deceleration in decline rate of total supervisor count. Total supervisors in the U.S. were down 6% year-over-year in the fourth quarter while in the first quarter, the total supervisor count is down 2% year-over-year. Additionally, the number of new supervisors for the first quarter increased 16% year-over-year and ahead of the 1% year-over-year increase in the fourth quarter of 2004. The growth initiatives being deployed in the U.S. are gaining traction and we remain focused on executing these initiatives to sustain this momentum. We will continue to nurture the Total Plan and Nutrition Club programs. We will roll out and upgrade myherbalife.com in the second quarter. We launched Liftoff and NouriFusion to increased product retailing, to recruit new distributors such as Generation H and to support the expansion of the Total Plan. We will continue to increase brand awareness through activities like the AVP Volleyball Tour sponsorship and the launch of Team Herbalife Sportswear. All of these initiatives are geared towards sustaining and steadily improving growth in the U.S.

In Japan, our number five market, volume was down 16% in the first quarter compared to the same period of 2004. This improvement in the decline rate compared to 30% year-over-year in the fourth quarter 2004. Similar to the U.S., we believe that the Japan market continues to be a viable direct selling market and we will make the necessary investments that we believe will turn around our business in Japan.

Bill, Ron and his team have reengaged the top level distributors. Over 1800 Japanese distributors attended the extravaganza in Atlanta. We are improving our brand image through initiatives such as sponsoring the Toray Tennis Tournament. The courtside sponsorship generated over 19 million consumer impressions and we served over 15,000 ShapeWorks Shakes at our hospitality tent. We relocated our Japanese office to a more prestigious location in Tokyo to improve our image and attract distributors to our business. We extended our call center hours to support the business needs of our distributors. Experiencing a deceleration in the decline rate, net sales were down 10% compared to a decline of 15% year-over-year comparative for the fourth quarter 2004 and 17% for the full year 2004. Based on current multi run rates, we could experience positive year-over-year volume growth within nine to twelve months.

Now let me turn over to Rich for a review of our financial performance.

Richard Goudis - Herbalife Limited - CFO

Thanks Greg. Let me walk you through the financial contained in our press release yesterday and also provide guidance for the second quarter and the full year. During this section, all references to sales are in fact, net sales and volume is volume points.

Net sales in the first quarter of \$372.1 million were 14.8% above 2004, reflecting year-over-year growth in all regions except Japan. Excluding the impact of FX, the company's sales increased 11%.

European net sales of \$144.6 million increased 5.8% from \$136.7 million in 2004. Without the impact of FX, sales would have increased 0.4%. We faced difficult comps versus 2004 when European sales increased 29% versus 2003 as a result of the European Challenge Promotion that was in place during the first six months of last year leading up to our Barcelona Extravaganza last July.

Net sales in The Americas were \$140.6 million, an increase of 26.4% versus 2004. Without the impact of FX, sales would have been up 24.8%. Net sales in the U.S. up 4.4% was ahead of our expectations during the first quarter. Additionally, net sales in Mexico were up 71.8% and Brazil up 52.9%. These countries continued to expand rapidly due to the combined success of the Nutrition Clubs and the Total Plan, along with strong country management and distributor leadership working together.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Net sales in Asia Pac were \$60 million, an increase of 30% versus 2004, led by Taiwan, up 55.5% and South Korea, up 15.6%. Excluding the impact of FX, sales in this region would have increased 23.8%.

Sales in Japan were \$26.9 million, down 10.1% from the \$29.9 million reported in 2004. Excluding the impact of FX, sales in Japan would have declined 12.5% compared to 2004. As Greg just mentioned, we are very encouraged with the sales trends and similar to the U.S., these results were better than our expectations.

Gross profit in the quarter was \$296.3 million or 79.6% of sales. The decline of 72 basis points primarily reflects sales mix by country coupled with a million dollar write down for slow moving inventory. Royalty expense of \$135.2 million or 36.3% of sales was up slightly compared to 35.8% of sales during 2004 due to country mix, a World Team bonus in the U.S. and to a lesser extent product mix. We expect this rate to return to historical levels during the second quarter.

SG&A of \$110.0 million were up \$2.2 million but lower than expected from \$107.8 million reported in 2004. Absolute dollar spending increased, reflecting a \$4.8 million increase in labor and benefits, a \$1.8 million increase in professional fees; these are offset by lower amortization and depreciation of \$1.3 million and lower events and promotion of \$1.5 million as we did not have an extravaganza in the first quarter of 2005 and finally, a \$1.8 million benefit due to the elimination of sponsor fees related to our IPO in December. As a percent of sales, SG&A improved 370 basis points to 29.6% of sales.

On a reported basis, interest expense of \$22.2 million declined \$5.2 million compared to 2004. Excluding the recapitalization expenses of \$14.2 million in the first quarter of 2005 and \$15.4 million in 2004, interest expense was \$8 million, a decrease of \$4 million versus 2004 reflecting the benefits of our IPO recapitalization.

Our outstanding debt is now \$365 million, \$165 million of which is the 9.5% notes due June 2011 and the remainder is a term loan tied to LIBOR plus 1.75 basis points and is hedged with an interest rate swap minimizing exposure to increasing rates. Our effective tax rate excluding the \$14.2 million of recapitalization expenses during the first quarter of 2005, and \$15.4 million of recapitalization expenses in the first quarter of 2004 was 36.3% versus 40% respectively last year. We are experiencing benefits from our corporate restructuring earlier than anticipated and we remain confident that this rate will decline into the low 30's over the next two years. Net income on a reported basis was \$13.3 million in the quarter and EPS was \$0.19 compared to the net loss of \$0.5 million in 2004. Excluding the recap expenses of \$14.2 million in 2005 and \$15.4 million in 2004, net income was \$27.5 million or \$0.38 per share compared to \$15 million or \$0.29 per share in 2004.

Turning to the balance sheet, the company ended the quarter with \$103.7 million in cash. This reflects the reduction of \$110 million of cash used during the quarter for the 40% clawback of the 9.5% notes. Inventory of \$69.1 million decreased \$2 million during the quarter and more importantly, on an efficiency standpoint, inventory turnover improved to 4.4 turns versus 4.0 during 2004. CAPEX of \$4.4 million for the quarter reflects our ongoing investment in infrastructure that Greg just mentioned. We invested approximately \$3.8 million in information technology including Oracle, the Internet and our IT infrastructure. We also invested in our facilities, primarily reflecting leasehold improvements.

Now let's turn to financial guidance for the second quarter and full year. I'll take a few minutes and provide detailed guidance for both the quarter and the full year and let me reiterate that our EPS guidance for the full year, excludes the IPO clawback expense of \$14.2 million that we reported in the first quarter. As a result of our stronger than expected EPS performance in the first quarter and our outlook for sustained improvement in our effective tax rate, we are raising our full year EPS guidance to \$1.20 to \$1.25 per share, net sales growth versus 2004 for the second quarter, 8.6% to 10.2% for the full year, 9.6% to 11.3%. Gross profit as a percent of sales in the second quarter 79.5% to 79.7%; for the full year 79.4% to 80%, royalty expense as a percent of sales in the second quarter 35.6% to 35.8%; for the full year 35.6% to 35.8%. SG&A as a percent of sales 33.5% to 34.2% in the second quarter and for the full year, 31.8% to 32.4%, operating income as a percent of sales 9.5% to 10.6% and for the full year, 11.2% to 12.6%, interest expense in the second quarter \$6.8 million to \$7.1 million and for the full year \$28 to \$29 million, effective tax rate in the second quarter at 36% to 37% and for the full year 36% to 37%. Please note that the tax rate that I just indicated in the second quarter excludes the impact of an approximate \$4.7 million in non-cash charge associated with restructuring the ownership of our China subsidiary into the global organization. Excluding this event in the second quarter

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

and the full year, along with excluding the IPO recap expenses in the first quarter and the full year, our effective sustainable tax rate for the remainder of the year will be between 36% and 37%, again moving into the low 30's over the next 2 years.

The resulting EPS for the second quarter is \$0.19 to \$0.21 and for the full year \$1.20 to \$1.25. Please note that the EPS in the second quarter and full year guidance includes the negative impact of the non-cash China tax charge. Without that event, the EPS would be \$0.06 to \$0.07 higher for both periods or \$0.26 to \$0.28 in the second quarter and \$1.27 to \$1.32 for the full year, and lastly CAPEX in the second quarter, \$10 to \$15 million, and for the full year, \$35 to \$40 million. That concludes our prepared financial recap for the quarter and our guidance for the second quarter and full year. At this point, we would like to open up the call to your questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Our first question comes from Lauren Lieberman from CSFB.

Lauren Lieberman - CSFB - Analyst

I just have a question on Western Europe. I wanted to know if we could kind of go through trends in general in that market. I think Germany was really sounds like the source of the shortfall there but talk a little bit about other markets and then Germany and what you're doing there to turn around the business.

Greg Probert - Herbalife Limited - COO

Well, in Germany, let me get at this in a second. Let's talk about Europe in general, some softness we're seeing across Europe in some of the consumer sectors, which I think a lot of companies are suffering from although we have a, I think, sort of a mixed bag in Europe, we have a lot of countries that are doing exceptionally well, Spain, Russia, some others. Italy's had a good first quarter. So really, if you look at it, the other issue I think to remember, we had a very, very strong Q1 last year in Europe. We had a very major promotion going on that we really did not anniversary this year, we just launched our World Cup promotion in Atlanta that will be going on for the next 3 quarters, it's a world-wide promotion, so we think that should help the comps for the rest of the year. In Germany, probably one of the markets that we will be focusing more on over the next quarter, we had a leadership issue there on the management side, we are in the process of recruiting a new General Manager. So much like we did in Japan and the U.S. and Canada and Brazil, we're bringing in stronger P&L management, someone with a strong sales and marketing focus, I expect to name that executive in the next 30 days. As you also know, our head of Europe is retiring this summer. We're very close to hiring a replacement for him. Again, we'll be looking for a seasoned sales and marketing executive to work more closely with our distributor leadership in Germany. I think one of the other focuses in Germany is to try to get a better balance between retailing and recruiting. Some of these programs have been very successful such as the Get 20, Keep 20, which is get 20 retail customers and keep them under our long-term customer program. We're initiating that in Germany. We're also doing some public awareness and corporate branding initiatives there much along the same lines as what we did in Japan with the Toray Tennis Tournament or in the U.S. with AVP and the racecar and our Team Herbalife, so again, we're looking at branding initiatives in Germany.

Richard Goudis - Herbalife Limited - CFO

Lauren, let me just add some other countries. Cyprus up 83%, Denmark up 32%, France up 15%, Czechoslovakia up 131%, Slovakia up 57%, Iceland up 37%, Spain, as Greg mentioned, up 41%, Turkey up 31%, Ukraine up 79%. I think that's a broad reflection of some of the countries that are moving forward. As it relates to Germany some of the trends we've seen this coming,

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

I guess is the good thing and Greg and the team have mobilized to move out quicker and to try to nip this in the bud so to speak but we've seen negative sequential trends since the first quarter of last year. Q2 over Q1 sequentially was down 12.9%, and to Q3 was down 12% and the fourth quarter sequentially down is 1.7% and this time in the first quarter, we're up sequentially 4.5% so I think with the change in country management in Europe, I think the worst is hopefully behind us and we're looking forward to some opportunistic numbers coming forward.

Lauren Lieberman - CSFB - Analyst

Okay, it would be great if you could comment on the involvement of the distributors in Germany and I guess in particular, I don't know if there's a Chairman's Club there or not or Chairman's Club member there or not but maybe President Team activity and anything you see in there?

Greg Probert - Herbalife Limited - COO

Yeah, we actually have two Chairman's Club, Martin and Yvonne Ernst, and Marcus Lehmann, who also sits on our Board of Directors with the company, both very involved and have large organizations there. Yet, as we do in any country, we're trying to reverse the downward trend, the first thing I do is get the Pres Team together. Michael made a trip to Germany at the end of last year, as Rich said we noticed the downward trend so we mobilized, Michael went there, we had a Pres Team meeting, which was attended by the vast majority of the Pres Team and the Chairman's Club. Both Chairman's Club members attended that, as did our head of Europe and our head of sales, Des Walsh. We laid out a 12 month recovery plan with a lot of the ideas that Rich and I both went through previously. so again early warning and then I was back in Europe last month meeting again with the German leadership to go through that plan, we made some tweaks to it, so again, just like we did in Japan and the U.S. and Korea, we put together a 12-month recovery plan which involved not only specifics but also getting Michael over there, myself over there, company leadership to get the distributor leadership working together again and motivated and excited. And that's something that Michael did very, very effectively over the past, twice over the past two quarters. He will be going there again in the summer. I think we are launching Niteworks this summer. Lou Ignarro is doing a tour through Europe which I think will excite Europe including Germany. So again, I feel very comfortable that the type of activity that we've seen turning around the U.S. and Japan and Korea, we're employing the same things in Germany. As Richard said, we're doing it quicker than historically before the market gets down too much.

Greg Probert - Herbalife Limited - COO

I just want to add one other thing, on the European front, we're going to be co-sponsoring the London Triathlon this summer at the end of the summer and we're gonna, we've already had almost 200 distributors involved in this event. It will be a distributor recruiting, retailing and great retention opportunity, it builds the new lifestyle focus that we are working on to have distributors much more active in their communities and it's what you would call a grassroots opportunity for the distributors to get very involved with not only their communities but with charities involved around these events and in recruiting and retailing the products, so we're excited about that. We're cosponsoring the Malibu Triathlon this year and we're looking at another triathlon in Latin America for the later part of the year.

Lauren Lieberman - CSFB - Analyst

Okay, are you competing in all three?

Greg Probert - Herbalife Limited - COO

Yes, I am.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Lauren Lieberman - CSFB - Analyst

Okay. On products. ShapeWorks and Niteworks, they're both in the top ten products now correct?

Greg Probert - Herbalife Limited - COO

Yes.

Lauren Lieberman - CSFB - Analyst

In what percentage of markets are they rolled out? Are they in the top ten countries yet both of those?

Greg Probert - Herbalife Limited - COO

Yes, as I just mentioned, Niteworks was obviously rolled out a couple years ago in the U.S., first quarter, we launched it in Taiwan with great success, one of the key drivers of why Taiwan continues to have tremendous growth. And then Lou Ignarro will be launching it on a tour throughout Europe, so I believe off the top of my head we're going to about 10 European markets July of this year, so we'll be launching it there. In addition, in the U.S., in Q1 we launched a 15-day supply of Niteworks, some of the feedback from our distributors was they wanted a smaller version so they can sample it. We found that that's bringing in a new type of distributor, more of an up-market customer and so what we did is we launched a 15-day supply of that and that's had good results, that's in our top 20 after 2 months.

Lauren Lieberman - CSFB - Analyst

Okay, what I was trying to get at also was if you can tell me for both of them, how many of the top ten markets are they not yet in? Because that's obviously a big opportunity if they're in the top 10 products and they're not in the top 10 markets.

Greg Probert - Herbalife Limited - COO

I'll have Frank give you a call back after the call but I think it's for the most part, these are rolled out in the majority of our top ten markets, at least ShapeWorks, Niteworks, I think because of some formulation lead times. I think that one should happen by the middle of this year.

Operator

Our next question comes from Joe Norton of Bank of America.

Joe Norton - Bank of America - Analyst

A couple of follow-up questions I guess first on rep count. In Japan I was surprised that the number of supervisors was still down 30%. I am just wondering, do you have any kind of outlook for that as you look through the rest of the year? Any sense that that number could start to improve?

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Greg Probert - Herbalife Limited - COO

The simple answer is yes. We are doing a couple of things, one is we are doing a WinBack Campaign where we are calling what we call lapsed distributors that have left the business, or are still on our list, but they are not doing any volume. So, this is a campaign to get back distributors that were formerly with the company under the idea that they would be more productive, hit the ground running faster than --

We are also doing a lot of focused recruiting activities. We are doing more HOMs, Herbalife Opportunity Meetings. We are doing something called the Roving STSs where we are hitting a lot of the outer markets. Traditionally a lot of our STSs in Japan were come straight in Tokyo and Osaka, now we are going out to the nine key cities in the north and south in Japan. We expect that all these things will help.

As Michael mentioned, we have recently -- well actually yesterday -- announced two new MAB members, which we think will help profile us in that market as will the Toray Tennis Tournament, as will moving our headquarters, which was done last week, to [Repunga] Hills, which is a much more upscale and branded part of Tokyo versus where we were before. So, it takes time to get those back, but I would expect to see those distributor numbers and supervisor numbers improve.

Equally important, we want to see the productivity of our supervisors increase in Japan.

Joe Norton - Bank of America - Analyst

That seems like that already started to happen, but I -- were any of these initiatives in place during the first quarter?

Greg Probert - Herbalife Limited - COO

We started the initiative in the first quarter, so we expect those to see some traction throughout the rest of the year.

Joe Norton - Bank of America - Analyst

And then, what about in Europe? I know, you know, there were also tough comps on distributors, but down I guess 7% in the first quarter. Is that sort of a number we should expect to see for the rest of the year there?

Greg Probert - Herbalife Limited - COO

No. I would expect to see that flatten out and recover, especially as we see Germany improve towards the end of the year. I think those numbers were brought down. As Rich said, we have a lot of markets in Europe that are increasing. Spain, Italy is doing a nice resurgence, France, Russia, so we're seeing a lot of high-growth markets. I would expect that to flatten out (inaudible) of the year.

Joe Norton - Bank of America - Analyst

The main driver of the distributor decline was Germany?

Greg Probert - Herbalife Limited - COO

Germany was a big -- do you have those numbers, Rich?

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Richard Goudis - Herbalife Limited - CFO

Yes. In Germany, year-over-year decline in all of Europe was 5,000. About 1,200 of it, so 25% of it was coming out of Germany.

Joe Norton - Bank of America - Analyst

Okay, but Spain was positive and Italy was positive?

Richard Goudis - Herbalife Limited - CFO

Yes, Spain was positive by about 1,500, or up 57% for total supervisors and what was the other country, Joe, you asked?

Joe Norton - Bank of America - Analyst

Italy.

Richard Goudis - Herbalife Limited - CFO

Italy was about flat in total supervisors in the first quarter.

Joe Norton - Bank of America - Analyst

Okay, and then I guess the other big one is Netherlands. How is the trend there?

Richard Goudis - Herbalife Limited - CFO

Again, the Netherlands had a tough comp because, if you remember, last year when we had the Bonus Awards in Maui, we did a promotion where we had double-points which we give credit for -- 2-for-1 credit in that promotion for volume points in February. So, that created a big comp in the Netherlands. And actually, the Netherlands had a larger February last year than January, which is very unusual, since January is our re-qualification month. So, I think you will see those comps come back.

There is no systemic weakness that I see in Netherlands. Their total supervisors were up a little over 4% for the quarter. So, all their metrics in terms of recruiting and retention are moving the right way. I think that is just a comp issue.

Joe Norton - Bank of America - Analyst

Okay, good. Thanks. And then, actually just quickly, do you happen to have for the U.S., you said the new supervisor count for the first quarter was +16%?

Richard Goudis - Herbalife Limited - CFO

That's correct.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Joe Norton - Bank of America - Analyst

Do you have a comparable number for first quarter last year? I know you said it was like 2 or 3% for the fourth quarter, but I did not get what it was last year.

Richard Goudis - Herbalife Limited - CFO

I don't have. I know it was negative last year because as we communicated on our fourth quarter earnings call, the fourth quarter of 2004 was the first time in 8 quarters that the number of new supervisor in the U.S. was actually positive.

Joe Norton - Bank of America - Analyst

So, that number seems to be rebounding pretty dramatically?

Richard Goudis - Herbalife Limited - CFO

We continue to see a strengthening in the recruiting in the United States. A lot of that is driven by our Hispanic business, which is continuing to strengthen and really our Generation H, we are seeing that segment with fairly very robust double-digit growth in terms of sales and recruiting. So, the Gen-H initiative that we've talked about several times is continuing to gain momentum and we think with LIFTOFF, it is a perfect product for that segment, and we continue to expect to see Generation-H grow over the next 3 quarters.

Joe Norton - Bank of America - Analyst

Good. Thanks, and then just some clarifications on your comments about China. First of all, you mentioned that you expect within the next 90 days something to be issued for comment, and then I guess just more generally, do you have any further sense of the time line for any of that? Meaning, how long will the comment period be? We understand that Avon is now in a test mode and what is your understanding of how that affects the time line?

Greg Probert - Herbalife Limited - COO

I'm always hesitant to predict how quickly the Chinese government will do anything, but let me take a shot at it for you Joe.

We talked about this yesterday because I was in a -- prior to the meeting with Secretary of Commerce Gutierrez, Doug DeVos from Amway and Avon was there, and Truman Hunt from NuSkin. We all put our heads together and talked about China for about 2 hours.

I think the consensus is that the Avon test, we all see that as a positive for the industry. It is a willingness of the government to move forward. I think on the flip side of that is that the test will slow down the issuance of the regs because they won't come out until the test is completed. It is probably going to be a 2-3 month test. As you probably know, it is limited to 3 cities. It is limited to a fairly small number of distributors. So, it is a very small test. I think it is a toe in the water for the Chinese government to feel a little more comfortable with direct selling and the regs.

Assuming that doesn't change the regs from their draft form, you could probable expect the final regs to come out shortly after that test for a 30-day comment period. So again, we are anticipating the final regs hopefully coming out in 90-120 days. Then you have to apply for licenses, so that would probably be towards the end of this year. Maybe as late as early 2006.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

As I mentioned, we are not waiting around for the regs, we are going to -- we are building the infrastructure. We are going to build the stores. It is pretty certain that there will be a significant requirement for store retail locations from any company that is going to get their license. The current draft says you need at least 10 per province and independent city. So that would be 50 square meters, a minimum size. So, we are going to go ahead and build those, start launching our product and building our brand, attracting preferred customers, which later can be converted into distributors.

We expect to launch 60-100 stores by the end of the year to complement the 106 stores that we have open via our existing distributors.

Joe Norton - Bank of America - Analyst

Okay, and then just quickly to remind me because I am just not clear on it, but Herbalife currently, as long as you operate under whatever regulations currently exist, you can sell in China currently? So in other words, as you open these stores in the second half, we should be seeing revenues coming from that?

Greg Probert - Herbalife Limited - COO

Right, exactly. We would operate under the same model that Avon and NuSkin and Amway and Mary Kay and a few other companies operate in China right now.

If you remember, our strategy was because the regs were eminent, and they were supposed to come out last December, we wanted to go in with our multi-level marketing plan as our initial strategy. And now that the regs are being delayed, we have created what we call a bridge strategy to get into the market, get our products released, and get into the game and start building revenues. That has all been built into our budget and our guidance for this year, so it is already fully loaded in there. So, we will do it with approximately \$10 million operating loss is already built into our EPS guidance for the year.

Operator

Our next question comes from Chris Ferrara of Merrill Lynch.

Chris Ferrara - Merrill Lynch - Analyst

Can you talk about the difference between, and I know it was touched on before, the difference between supervisors and volume in places like Japan? I mean is there something structural that is going on in that market that would lead to still showing a decline in supervisors, yet having sales look like they are recovering a little bit, or would you still view the level of supervisors as a leading indicator?

Greg Probert - Herbalife Limited - COO

Yes Chris. This is Greg. It is one leading indicator, but again, if you remember the model it is really the number of supervisors and average rate of productivity. So, what we have in Japan as you know, you have seen the numbers, we lost an awful lot of our distributors over the past five years, and that resulted in a sales decline. I think what we have done now is we have gotten down to where we have a lot of strong supervisors, that accounts for the core that has been left. There has been a lot of pruning of distributors and supervisors that were not very productive.

So, as a result we are seeing that even though there is a slight decline in supervisors, there is an increase in productivity of the remaining supervisors. So, we have this core group of supervisors that have customers that have a good retailing business and really the trick is to bring in new distributors and new supervisors.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

A lot of our activities in Japan are built around recruiting and enlarging the distributor base, and in order to do that, we have to have products. So, we are launching a lot of new products in Japan. Henry Burdick who heads up our Product Development is looking for local products there. We just named our two new MAB members; David Heber is going over there shortly to work with Henry on the product plan.

So, again, I think product and brand image and awareness, corporate awareness, is all key to building brand awareness and helping our distributors recruit more supervisors into the company.

Chris Ferrara - *Merrill Lynch - Analyst*

Got it. And then I guess, sort of the opposite side of that in Europe, we have a market that has decelerated as opposed to Japan, which is picking up. Will you also still have now distributors down seven? I know there is a comp issue there too, but you still have distributors -- would a decent spread relative to local currency sales -- what's going on there?

Greg Probert - *Herbalife Limited - COO*

Well, it's a little bit of -- you really have to go market-by-market, Chris, to get it. It is sort of the flip side is I think what we need to do in some of these markets, and I think Germany is a good example there, we're still recruiting and we are not building enough of a sustainable retail base. Again, the focus there is less on recruiting, although we need to get more supervisors in, and really building the productivity of our supervisors. Holland has always been, Netherlands has always been a very heavy retail market, and I think because of the comps. That's suffered. I would expect to see that reverse in Q2, and to have that grow back. Other countries, Spain, Italy has -- there has been a resurgence there. Russia, you are seeing very tremendous growth, and I think you've seen growth, both in the number of supervisors, as well as productivity.

Chris Ferrara - *Merrill Lynch - Analyst*

Got it. And in terms of your marketing activities, you guys are sponsoring tennis and volleyball and, I guess, a triathlon. How is that, I guess, what is different there from what you guys were doing in the first year, and sort of make it into more of a push business and a pull business. Is it just the grassroots nature of this that made you more comfortable with this type of promotion as opposed to distributor promotion?

Richard Goudis - *Herbalife Limited - CFO*

Well I think the one thing that in the first year when I first came into the company, I probably mismatched what the company is and what its market was. I thought we could go chase consumers, and distributors would follow. The reality is we're a distributor first company. So everything we do has to be thought about, what's the connectivity between the distributor and the event. When Greg and his team came up with this AVP promotion it fit us perfectly because what happens at these events is we have a tent there with the LIFTOFF branding, with the Herbalife branding, and distributors come and they sample the product, they recruit, and they retail. They retail the goods right there and they pick up leads and that is a huge opportunity for us and it fits perfectly with what we want to do.

At the triathlon the exact same event happens. We have a booth there that samples the products, distributors man the booth, they run the show. If the distributor is connected and engaged the promotion will work. If it's corporate doing it it won't work. We didn't understand that at first. When I first came into the company because I came very much from a consumer goods background, so I knew how to place product on shelf and get it to move by typical consumer advertising campaigns. This has to be distributor focused, distributor first, whether it's promotion, whether it's an event that we do like this, whether it's a triathlon, whether it is a NASCAR running around the track. The distributors have to be involved and engaged.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

The advantage as we go into the next year is that we will have a consumer-facing website that will attach a distributor to a new lead. We have some details to work out on how we distribute those leads and how we work with the distributors to make sure this is most effective, but then we will be allowed to maybe even do a few more things into the mainstream media. But we are not going to be an advertiser on commercial television. It just doesn't fit our program, it doesn't fit our margins, it doesn't fit our personality. What we want to do is have distributor promotions that they can engage, they can operate, they can lead with. So that's how it works because you'll see more and more activity. A lot of grassroots stuff, local marketplace, events, triathlons, marathons, swim meets, soccer, we want to see kids with soccer uniforms on that say Herbalife on them or LIFTOFF, or Niteworks, or NouriFusion. Community active, community-based, community programs that our distributors can lift their brand, their image, and their awareness.

Greg Probert - Herbalife Limited - COO

Chris, just to give you a data point of how this works and how effective it is for a little bit of money; we're spending what I would consider probably the cost of a couple of 20 second spots on CSI, we can sponsor this volleyball tournament and it's 14 city tour. In our first city our distributors man the booth, they're sampling products, they recruited over 2,000 customers and distributors in one weekend. So to get that number of leads through media is just not cost effective. In addition to that, because it's on TV, it's on Fox Sports, it's on NBC, we're getting millions and millions of impressions which again, doesn't lead directly to a customer. It will ultimately when we have a customer, but again we're building brand, company and product awareness which makes it much easier because those people, one, go seek distributors on Internet sites, yellow pages, equally important when they're approached by a distributor they've already been aware of both the company and a new product like LIFTOFF or NouriFusion.

Chris Ferrara - Merrill Lynch - Analyst

On the bridge strategy in China, is the change relative to before or just the thought because it's single level it's much closer to a retail model so you might as well just go out and do the retail model now, is that really –

Greg Probert - Herbalife Limited - COO

I don't know, Chris. We're all hoping, we're all fighting for multi-level. That was our number one issue -- it is our number one issue with the government, it was our number one request of Secretary of Commerce Gutierrez yesterday, was that he go to the top levels of government, Madam Hui (ph) and potentially higher in terms of we should be allowed to do multi-level marketing the same way direct-selling goes around the world. Avon, Amway, NuSkin, Mary Kay, and ourselves were the five companies represented. We're all unanimous as an industry that we need multi-level marketing. 80% of worldwide sales from direct selling come from multi-level marketing companies. So it is the predominant compensation plan and we made that clear to Secretary Gutierrez. Hopefully he'll make it clear to the government. So we're all fighting very, very hard for multi-level marketing and that I would say is the single biggest issue for the regs not coming out.

In the meantime, we can start with a retail single-level model and convert but again, I just don't want to sit on the sidelines for another 6, 9 months, waiting. We have to open our stores, we have to start building our brand. In that \$10 million we have some advertising money and we have to support our distributors and get our products out there.

Chris Ferrara - Merrill Lynch - Analyst

But doesn't that mean that you'll be employing all your distributors and paying unemployment costs, stuff like that, from the start as opposed to if you just waited for the regs, or is that not really material as far as --

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Greg Probert - Herbalife Limited - COO

It's not material at this point.

Chris Ferrara - Merrill Lynch - Analyst

Just one other thing. The U.S. obviously has a huge turnaround so far. What metro areas in the U.S. have really driven it? Have any ones that were sort of in the tank in the last couple of quarters really picked up?

Richard Goudis - Herbalife Limited - CFO

Yes, I think Florida has been a very, very strong market for us. It has picked up. I think in general our top 25 have been up about 3%. If you really look at it those top 5 are driving the business. I think where you're seeing very, very strong -- the U.S. I think the last time we talked it was down double digits, we're seeing -- I'm sorry, the Los Angeles area which is about 13%-15% of our business was double digit decline that's now down about 5%-7% and turning around. As you remember, we talked about doing a lot of leadership meetings, summer spectaculars; we did our worldwide meeting last October at a university down in Anaheim. We're doing it again this fall. So again, we're seeing a strong rebound in Los Angeles, we're seeing continued strong activity in New York, in south Florida. Blake Morgan, with our Chairman's Club in south Florida has been very, very active down there in having opportunity meetings and leadership weekends. The first AVP tour was in Ft. Lauderdale which again helps our business down there.

Greg Probert - Herbalife Limited - COO

Chris, they still have a tremendously active Pres Team member in the Dallas area too, Dan Waldron and his team and in Houston we're seeing quite an uptick.

Richard Goudis - Herbalife Limited - CFO

If you remember, Chris, last time we talked about in the top four regions, two were up, two were down. Now in our top five, four are up double digits, one is down single digits and specifically Dallas-Ft. Worth, up good double digits, almost 20% I think really reflecting we put a walk-in center in Dallas last year as a test. We're still really finalizing that evaluation right now and potentially, based on the success of that, it might have us invest in other walk-in centers around the country. But I think we're very comfortable right now that some of the grassroots initiatives that we put in place last year are starting to bear some fruit.

Greg Probert - Herbalife Limited - COO

I think it really goes back to, again, our Hispanic business continues to grow. That will continue to grow with the introduction of Nutrition Clubs. In the U.S. we're starting to see those gain more and more acceptance, especially in the Hispanic. The Gen H, those top metro areas are where our Gen H'ers are coming from, so that's really driving a resurgence in those metro areas. If you remember, I restructured the U.S. business 6 months ago and created 3 regions: west, central, and east so that we could get our sales, support people closer to those metro areas. We now do distributor S&P calls by region as opposed to entire U.S. S&P calls. So again, a very laser focused by region and by metro area and I think we're starting to see that have an impact.

Operator

Our next question comes from Scott Van Winkle from Adams Harkness.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Scott Van Winkle - *Adams Harkness - Analyst*

Well, you gave a lot of reasons, market by market and broadly, as to what drove growth in each market. I'm wondering, when you talk to your leadership, your distributor leadership, what do they tell you is the reason the U.S. business turned around and some of these large markets are performing so well? Does it mirror what you're telling us?

Richard Goudis - *Herbalife Limited - CFO*

Well, yes, because we're basically a byproduct of that leadership. We feed product, we feed promotions into the marketplace; the leadership engages the market, creates new distributors, and does the 3 R's. If we're working together with them then things are clicking. That's what's happening right now. That is really -- I don't want to fob you off with anything but the real core to this, and I think Scott, I'm pretty sure you were down there and you saw the emotional side to this company. Where people become very motivated, very engaged, and they take a trust in leadership positions back to their community with them and they say, "great products, great promotions, a company that's standing behind us, a management team that's now been with us longer than any other management team other than Mark Hughes, and we're believing in these guys," and it seems to really be clicking.

Now, there's always going to be areas to fix and none of us -- I don't have a 10 on my 10 scale, I'm still looking for the 10 promotion and the 10 product and the 10 distributor. We'll get there, but the thing that seems to be working the best is leadership is united, momentum is on our side, we've got some great products we've introduced, distributors are out there recruiting and retailing to a higher level than they have been. We've got a few issues with retention as you can see here, but we're getting to that too and the promotion program that was put in this year, which is basically a base plus promotion -- whatever you did last year plus earns you awards, all the way up the scale. We've got a multi-level of promotion and we haven't done this in the past on a global basis. All the promotions have been zero based, zero sum game, and now we're saying, "come to us if you did 25,000 points last year we're going to pay you for -- we're going to promote and reward you for the next 5, 10, 15, or 25,000 points that you do."

So these are the kind of things that the distributors have come up with many of these ideas and we're just incorporating them on a worldwide basis. So you say what are the growth initiatives? There are all sorts of things. They're new fishing clubs, they're Total Plans, they're great promotions, they're good products, they're an engaged distributor leadership, there are people who are highly motivated now who are returning to the business with a big urge that many of them haven't felt since the early 90's. So that's where it's coming from.

Greg Probert - *Herbalife Limited - COO*

Scott, this is Greg. To me it goes back to a single event. When we pulled the Chairman's Club into the office and we looked each other in the eye -- and this was about a year ago -- and we said we have to turn around the business in the U.S. The U.S. is our lead market, it's obviously by far our largest market, and we've always believed the U.S. is an indicator of how healthy the business is. What we did is we pulled them together, we talked about recovery plans in the U.S. and we put that together, together. It was not a corporate plan, it was not a distributor plan, it was a joint plan. What we've done is we've executed a series of planned events over the past 12 months that has had a positive, cumulative effect in the business. It's hard to point to any one of those. If I knew there was a silver bullet I could use that everywhere. There really isn't. In this business it's about trust, it's about momentum, it's about emotion, it's about confidence. I think what we did over that year was not only did we have a plan, but through the trust of executing that together -- and we've tweaked it, and we'll continue to tweak it -- but I think what we did is, by developing that plan and executing it together as a team we built strong trust and loyalty and I think also the distributor leadership regained trust in their leadership. They now feel a year ago, or two years ago when we came into the company, the vast majority of the checks in the U.S. were going down. Now the vast majority of checks in the U.S. are going up and this is a momentum business.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Scott Van Winkle - *Adams Harkness - Analyst*

As an observer from the outside, I'll make a comment and I'm not trying to boost your egos, I wonder if your distributors with long tenures say the same thing. From having watched Herbalife in the late 90's, and this is not a knock against any of the historical performance, it was never a real sophisticated company in my opinion. I wonder if your distributors look at the product launches you have, the fact that you always have a way of marketing the product and an innovative way coming to it, do they look at this and say the company's more sophisticated? I've got to think that that's a big morale boost.

Greg Probert - *Herbalife Limited - COO*

I think it goes back to trust. Some people can sort out sophistication in different ways. Sophistication to them is simplicity in many -- and it is to me, too. I think if you can take a sophisticated program and make it simple you've really reached a high level and I think that's what we're striving for. I think in the beginning we got a little too sophisticated and we didn't keep it simple. And now we're striving very hard to take everything down and break it down into the simplest -- how is someone going to sell this to their neighbor? How are they going to lean over the fence and tell them that Garden 7 is a great antioxidant and, if you take this, your body is less prone to some of the ills that bad nutrition throws at you. If you take Niteworks, you get more nitric oxide in your system, and that means you have better blood flow and you're going to have more endurance. If you take LIFTOFF, you're going to have energy. And you're going to shoot through the roof.

That's the simplicity that they want, and we're sophisticated in the science behind the door, and we're going to be sophisticated in making sure that the promotions have a good economic impact to the company and to the distributors. We're going to have planning in this Company as long as I'm here and I plan to be here a long time.

Planning is the marching order of the day in this company, and that lends sophistication, but it also lends simplicity because you're not -- every issue isn't a brand new issue or causing the place to slow down. So, if you're seeing us as sophisticated, fantastic. I wanted our distributors to see us as simple, fun, magical, and motivating.

Scott Van Winkle - *Adams Harkness - Analyst*

Thanks. Congratulations on the U.S. turn.

Greg Probert - *Herbalife Limited - COO*

Hey, Ted, why don't we just take one more call in the convenience of time here.

Operator

Our next question comes from Javier Escalante from Morgan Stanley.

Javier Escalante - *Morgan Stanley - Analyst*

Hey guys. I have a couple of quick questions. One is on the second quarter guidance. Given the differences in the attendance to the extravaganza is falling in the second quarter. Last year, my understanding, the one in Barcelona had 20,000 distributors attending. This one had 35,000 distributors attending. Shouldn't we expect the continuation of the strong momentum we saw in the first quarter, kind of like staying, if not accelerating, in the second quarter because my understanding, if I look at the guidance, basically, that includes already 4 points of 4X, so organic sales are expected to decelerate a bit in the second quarter.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Is this just to be conservative, or are you guys thinking that Europe is going to wait a little bit more on the second quarter trend? And then I have a follow up. Quick one, too.

Richard Goudis - Herbalife Limited - CFO

Alright Javier. I think we're going to just tend to be a little bit on the conservative side on revenue guidance at this point as we begin our second quarter. We just completed April, and I think to a person, everybody was very excited about the performance in Atlanta, and the reactions to the new products; but I also think that a year ago, I think everybody was excited after leaving Nashville. Then we saw trends in the U.S. start to slow down a little bit because of maybe some confusion in understanding the product line. I think we learned a lot from that. I think this time it was a little bit simpler in the introduction of these products, and if you'll just bear with us and let us be conservative for another 90 days, hopefully, we're talking to you this time in August, and we have good results to report as well.

Javier Escalante - Morgan Stanley - Analyst

And on the growth markets, Brazil, Taiwan, and Mexico, they accelerated significantly in the first quarter. I can understand Mexico because of the rollout of the Nutrition Clubs; there seems to be far from saturation there, but could you help us understand the mechanics of this Total Plan in Brazil. Why is it driving this strong growth? It seems, from what I understand, it's something very simple, it's a referral, so how could that be driving the acceleration to these levels? Could you talk about that, and also on Taiwan, what exactly drove the acceleration in the first quarter relative to what already very, very strong growth?

Richard Goudis - Herbalife Limited - CFO

A couple of things to point out. First of all, Mexico is growing very strongly. I don't want everyone to think that's purely because of nutrition clubs. Our -- actually our biggest royalty check is to a President's Team that doesn't do nutrition clubs. So we're seeing strong growth in both our nutrition clubs, but very strong growth also in our traditional business. So just a point I want to make so that we're clear that Nutrition Clubs is not the only key driver in Mexico.

In Brazil, equally, the Total Plan is not the only thing driving Brazil. Brazil, I think, with a very, very strong Country Manager, Anita Vinni (ph) who we brought over from Avon, has brought a lot of stability and a lot of vision to that country. She's looking at a lot of ideas and implementing some ideas local in terms of guerilla marketing and community activity, again, raising the profile of Herbalife. Again, there is a massive -- although that market has been doubling every two years, there is massive headroom in Brazil, both Nurtura and Avon are over billion dollar companies in Brazil. We're around a \$200 million company. There is massive headroom there.

There's a lot of people, lot of distributors -- one of the competitive advantages that we have over both those companies is they are both 100% or near 100% women distributors. 50% of our distributors in Brazil are men, so of the top three companies, we're the only company that attracts men and that makes our recruiting much easier. That's driving our recruiting, the Total Plan, and how they do that is through traditional recruiting methods, HOMs, but the Total Plan is merely a way of getting lead generation. And you're getting lead generation for both potential distributors as well as potential customers. So the mechanics are very simple. You give someone -- you make an appointment to give them an introduction to our outer care line, generally it's a facial mask, and a cleanser and a toner. While you're doing that, you basically probe them as to whether they might want to be a distributor or a customer, and then you ask them for ten referrals. And for doing that, much like the old Kirby vacuum model or Tupperware model, you get a percentage of those referrals.

So, again, it's a way of very cheaply and very effectively generating referrals that turn out to be either customers and/or distributors. So that's continuing to grow -- we're seeing where we move that idea into Europe at the end of last quarter and during this Q1 and Q4 of last year you're seeing a very significant increase in our outer care sales in Europe where we introduced

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

the Total Plan. As a matter of fact, we sold out of our old line right before we launched NouriFusion because, I think, our sales were up, in some countries, 100%. So, again, it's a great idea, but there's nothing really magical about it other than it's just a very simple -- and it's very easy to teach, too. I think that's one of the keys is that it is very easy to teach how to use the Total Plan, and it gives our distributors a lot of confidence. It's sometimes hard to walk up to someone and ask them about weight loss. It's a hard introduction to make. But everyone likes outer care, everyone buys outer care. As you know, we have many billions of dollars of sales of health and beauty products in Brazil and direct sales is the preferred channel for outer nutrition and health and beauty in Brazil, so all those things play in our favor, and I expect to see continued growth in Brazil.

Javier Escalante - Morgan Stanley - Analyst

I know this is cheating, but just one thing on the U.S. You guys -- there was a significant swing in the fourth quarter, from down 17 to plus 4 in the first. The distributor number is pretty much kind of like consistent with your run rate if you look at the comps but yet the productivity improved so much to drive positive volume growth, 3%. What is happening here? Is it the new supervisors have a different profile from the existing base or is it that re-qualification is helping here. What exactly is driving this increasing productivity in the U.S.?

Richard Goudis - Herbalife Limited - CFO

Javier, I think it's all those things that you mentioned. I think we -- if you remember, last year -- and this is one of Michael's thing when he first came in was we have to have a balance between retailing and recruiting in this business. It was -- we were probably a little out of whack on the recruiting side, so over a year ago in the U.S. we launched "get 20, keep 20". We implemented -- and this was Michael's idea. A long-term customer program has been very successful in Russia and in certain parts of Europe.

So I think through these teachings, a lot of our distributors are now much more focused on building sustainable consumer businesses as opposed to just recruiting new supervisors and moving on. So what we want to do is make sure that all our product gets pulled through the channel as opposed to just recruiting. I think, because of that, not only are you seeing new supervisors and a new type of supervisor, you're also seeing productivity go up because they're moving more product per distributors through the channel.

Javier Escalante - Morgan Stanley - Analyst

Well thanks.

Michael Johnson - Herbalife Limited - CEO

Hi everyone, it's Michael again. This is unscripted, so Richard is probably going to faint, but as I sit here in my team Herbalife shirt with my "I love Herbalife" button on, I'm very proud of our company in the first quarter. I think we performed very, very well, but here's what I really know. I know we can do better. I know everybody in this room thinks we can do better. All of our distributors think we can do better. We can recruit better, we can retail better, and we can retain better.

Our growth initiatives are beginning to take hold in many countries. You saw it in the U.S. We're experiencing success, we're globalizing great ideas, we have received tremendous feedback on our new products. We had a very unifying event in Atlanta last week, and most importantly our distributors and our employees are engaged, motivated, and are excited.

We continue to strengthen on teamwork and, you know what, we're going to expand this business like we never have before. So, thanks for being with us today. We're committed to changing people's lives.

May. 03. 2005 / 12:00PM, HLF - Q1 2005 HERBALIFE LTD Earnings Conference Call

Operator

Ladies and gentlemen, that concludes today's presentation. You may disconnect.

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