

FINAL TRANSCRIPT

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HLF - Herbalife Ltd. at Bank of America Securities Consumer Conference

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PRESENTATION

Chris Ferrara - Merrill Lynch - Analyst

Welcome back. We are pleased to have Herbalife. Herbalife is a multilevel marketer of weight management and nutritional supplement product. About 63% of sales are in the weight management category. The Company is about 79% international, operating in 70 markets. Here from the company to present is CFO, Rich Goudis, also here is head of Investor Relations, Andy Speller. Thanks for being here, Rich. We appreciate it, and I'll turn it to you.

Rich Goudis - CFO - Herbalife Ltd.

Great. Thank you. Before I start, let me just refer you to our Safe Harbor language that's here in front of you and the copy of the presentation. For those online, it should be there in front of you online or on our investor website. What I'd like to do is just start out and give you some of the highlights. The format today is about a 15-minute prepared presentation and then I'll open it up for Q&A.

So some of the highlights of direct selling is high variable cost model. As Chris said, 80% of our business is outside the US, a very conservatively leveraged balance sheet. These businesses tend to generate a significant amount of cash. Net income, typically, is a good proxy for our free cash. Probably, and I'd don't want to save this, the most important thing for you to know is, and after our last earnings release, I personally bought \$1 million worth of stock. Because I don't know all the CEOs in companies you meet, but I do know our company and I do believe in the long-term prospects of our business. So I put my money with what I'm about to tell you here.

So for our track record of growth, on the top is the slide of net sales over the last 12 years. The new management team came in, in '03. This Company, a public company in the '90s. It was taken private in 2002 by two private equity companies. They brought in a new CEO, Michael Johnson, who came from The Walt Disney Company, 18 years at Walt Disney having built, last, the Buena Vista Home Video business and Disney International. And you can see the acceleration of growth and top line. Similarly, look at the free cash flow below, and again, net income is typically a good proxy for our free cash.

As Chris mentioned, we chased two primary megatrends around the world. Number one is the global obesity epidemic, and if you're not convinced that it's an epidemic, go to Wal-Mart, or go to a theme park, and you'll see that this is really happening right in front of our eyes. 63% of our business talks to this. Right now, we actually have a weight loss challenge going on with our sell-side analysts that Andy's running, to have them live the experience of some of the things and ways that our distributors go out to market.

The other macro trend that we chase around the world is that of either under-employment, those people who are just making it and need some supplemental income, or, more importantly, and you can see by the statistics both the US unemployment and the Euro zone unemployment are, those markets where unemployment is on the rise. And you can see in the bottom right hand side of this slide is our distributor growth over the last six years.

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I want go into the compensation system, but up on the top right we pay out \$0.73 of every retail dollar. We think this is a very lucrative and attractive business model, the single biggest component being the retail component. So buying it whole sale and marking it up. Trading down, I think you hear that in a lot of companies, but the value proposition is very important in these times where people have a finite amount of discretionary spending. So we look at it in two ways. One is either trading down from either a calorie standpoint, okay, or trading down in terms of meal and value proposition.

So an Herbalife meal replacement shake is less than \$1.50 at retail, but what you'll find out more and more is our distributors have created very creative ways of breaking down this product on a daily basis, instead of buying a tub of 22-day supply. These are very key metrics. I challenge you that if you're going to invest in this segment, you want to understand from those companies that you're looking at, what are the key metrics of their business and challenge them to bring these metrics in front of you.

First of all, we differentiate in the blue, distributors, in the green, sales leaders, the difference primarily being that the sales leaders are the people who are the part-time and full-time leaders of the business. If you take a look to the right, on the top right we'll go clockwise here, what happens when the people in blue, which is about 1.5 million people worldwide, when they order on a monthly basis. And this is the course of the year, but 51% of time when they order directly from the company, their average order is \$100. Their discount is 25%.

Most of these people, given our focus on weight loss, have come into the business to lose weight. So they take \$49 to be a distributor, much like buying a Costco card, if you will, get a 25% discount, and then they're off on their 12-week journey to lose weight. Then they step up. Now, they've lost some weight. People in the office, people, friends may be asking, what are you doing, how do you lose weight, can you get me some of those products. About 29% of their time, their average order is \$300 a month. They order at a 40% discount. The scale keeps sliding up to the point where now friends of family are asking your parents, or your sister, or your colleagues at work, hey, can you get me some of that product. This average order here is for \$350 a month and they order at a 42% discount.

Now, the folks in the green down here, these are the new supervisors or new sales leaders that come into the business on a quarterly basis, and we showed a growth rate as well. These are very key statistics to look at. These are the drivers of the business. This is basically hiring your sales force, if you think about it from a direct sell, a direct business. And then the retention rate. How many of these people are we keeping in the business? And you can see since 2003, we've taken that retention rate from 28% to nearly 41%.

So let's take a look at our top markets, and we speak in terms of volume. Every product has a set amount of volume points, and the reason for that is so there's a level playing field around the world, to whether I'm selling a product, similar product in Europe, or in the US, or in Asia, I have to do the same amount of work to get that certain amount of volume points. So if this glass of water is one volume point, it's one volume point everywhere we sell it, regardless of the retail price.

So in terms of volume, we go out to the last four years by quarter for our top ten markets, both in terms of volume, in terms of net sales, and sales and local currency. So you can get a sense of what's going on in the business. If you look at our quarter, we were down 9% in volume. Seven of our top ten markets were up. In fact, six were up double digits, but we have problems here in our two largest markets, which I'll take just a few minutes and walk through very quickly.

Mexico, our number two market, which most people don't associated Mexico with being a large direct selling country, they're our number two market. They were down 23%. If you look down the bottom slide, you look at what Mexico has done since the beginning of 2000, and you can see that this business is almost at four times the size. Why is that? Distributors changed the way they sold the product from going from a month supply, which is maybe just a very sliver of the population, to breaking it down to a daily consumption business. They call them nutrition clubs, because you can't make weight loss claims in Mexico. They charge 18 pesos to 20 pesos for a visit, and in that visit you get the shake that we saw on the prior page, Herbalife Tea and Herbalife Aloe. But more importantly, you get the experience, the community, the culture, the support group, the recognition of being in, like, what you think of a Weight Watchers, Jenny Craig, or even an AA experience as far as the support.

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Similarly, in the US, the US, especially the Latino population of our US business started to pick up on this nutrition club concept in about the 2005 timeframe, and you can see the acceleration of the US business over that same time frame. So let's take a look a little deeper at the US. This is US Latino population. Four years ago, the Latino population in the US was about 35% of our business. In the fourth quarter, it was 63% of our business. You can look at the growth rate, and up until the fourth quarter, we were growing at strong double digit growth rate in the US. Many investors, honestly right now, are sitting on the sideline, saying I'm going to look and see what happens with this metric after the first quarter.

In January, we did communicate a couple weeks ago when we had our fourth quarter earnings call that this number was actually up 10%. So right now, our belief is that the fourth quarter was more the anomaly, not the new norm. But we're going to have to wait another couple of months and we'll tell you that in the beginning of May what actually is transpired in the US business. But what's very important to us and healthy is that the number of supervisors ordering was actually up 12%. So even during challenging economic times, the level of activity in the market, the level of activity by these supervisors was up 12%. Unfortunately, the average order was down 13%. I think that's more reflecting maybe their customers being a little fearful of what's going on in the economy, what's going on with them personally, and their outlook, coupled with holiday spending and the like.

We saw our trough in November. We saw a better January, a better December, excuse me, and actually a positive, as I said, 10% in January. So what are we doing? Essentially, this is like a blitzkrieg. It's getting out in front of your sales force, what we call our distributors, and engaging them, and encouraging them to be more active, enthusiastic even during what we would say are tough, challenging times. We get people up on stage in front of our distributors, who are growing their checks, who have had success during challenging economic times, to reinforce to them the value proposition of Herbalife that we just went through very quickly, whether it's the segmentation of markets, the value proposition of the business, but giving them the confidence to make that sale, to open that door, to make those phone calls, to hand out those fliers, and the like.

And that's a very important aspect that I think that we were starting to wane a little bit as we got into the fourth quarter, because there was so much fear, and there was kind of like a deer in the headlights approach by a lot of distributors to see what was going to go on in their local economy. We talk about this conversion to daily consumption, and I want to show you the importance of this and why we're focusing on it so keenly as a business. We kind of talked very quickly about the US and Mexico, and I welcome the opportunity to talk more, later.

But what we plotted here was the five key markets that have already converted to daily consumption. And if you look here, you can see that Taiwan, I'm sorry here, went through sort of an inflection point here. Brazil went through an inflection point. Korea never really went through much of an inflection point, just continued to grow. But we think these are well positioned for ongoing growth, because what they've done is they've broken the model. They now are charging people on a daily basis. So if you think about where the money is in the pyramid, and there's more people at the bottom of the pyramid, especially in some of these developing markets, a lot of poor, lower middle class people. They're creating the opportunity for them to have that access to the Herbalife experience. That's what's driving very strong growth in these markets.

We also see Russia, for the first time, break into our top ten. They are taking a version -- we haven't put them in green yet, because it's not as widespread in Russia. But they're taking a deviation, if you will, of the nutrition club. They're calling them breakfast clubs. Primarily, this is in Eastern Russia, so not as effected by some of the things you're hearing in the larger cities. But they're saying come in and have the best breakfast, the healthiest breakfast, and be nourished the best you can.

We would expect to see, as we go through 2009 into 2010, rolling these club concept out into China now that we've proven the concept works in an Asian market. So it gives us a lot of optimism. China, just five years ago we did about \$1.5 million a year. Last year we did about \$140 million. So China is a huge opportunity for us, and we think with the advent of the nutrition clubs, it's very much a competitive advantage for us.

We look at volume points per capita. That is where we spend our money and where we think of are the opportunities are in our business. You look at the Company average, which is one, but interestingly enough, if you look a couple lines above that, the US business is two times the Company average. Sort of, probably what you would expect. But I don't think anybody in here

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would expect that Mexico, it would be two times the penetration of the US business. In fact, most of the companies you probably follow, if you follow consumer goods, you're challenged to find a company that has deeper penetration in Mexico than they would here in the US, or a very mature market. I think that is, again, valid proof of why the nutrition club concept, why this daily consumption model is really strong.

And additionally Taiwan, which was a good market, got even deeper penetration when they embraced the nutrition club concept late last year. And then Iceland's kind of off the charts. It's a one off, but 25 points, that's kind of our nirvana out there. If we can get the whole business world to be at 20 volume points per capita, it's kind of like can you bar the door. The markets that are under penetrated, we talked about China, Russia. Brazil just went through that transformation, so we expect that China -- Brazil's penetration here, which is less than kind of \$0.86 per person will continue to rise, as will Korea's. And hope, again, China being here at \$0.09 will continue its rise. And can you imagine if China gets just a company average, the kind of impact it will be on our business.

Our financial performance is very strong, both top line and bottom line. Margins are very strong. These are all public so I'll kind of move through this to get to Q&A. The same with the balance sheet, very conservatively levered balance sheet with \$350 million in debt. Over the last two years, we bought back over \$500 million of stock. We've paid over \$90 million of dividends, so almost \$600 million distributed back to investors in some way, shape, or form. We have \$350 million in debt, which is less than one times EBITDA, and that debt is not due until 2012 and 2013. So our business does not have the concerns that maybe a lot of other companies that you're looking at, or invested net income, do. We're not trying to refinance our credit this year. In fact, you could argue that by 2012 if we intend to, we could be debt free and not have to worry about the markets at all.

Let's talk to guidance. We'll start on the top left where we when we initially got it. After our third quarter earnings call, we thought volume would be 4% to 5% top line growth, and earnings would be in the range of \$3.00 to \$3.20. This is after finishing a year of \$3.53, primarily being that the dollar has strengthened significantly against most major currencies in the back half of last year.

Now, because of what you saw in the fourth quarter both in terms of Mexico and the US, when we gave this guidance, this was prepared probably in the second week of February, we were very cautious as to what the full year would be. And in fact, when we took down our numbers, we had half of Wall Street yell at us for taking our numbers down. The other half said, we don't believe you, if you're only going to grow plus or minus 1%, we don't think you're going to make these numbers anyway.

So that being said, this is where we are. This is the guidance we provided a couple weeks ago. So let's take the downside and everybody wants to look at the downside of our business. If we think volume could fall down 4% year-over-year, we would lose \$0.33 off that \$2.90. Additionally, if the dollar were to strengthen against our basket of currencies, we could lose another \$0.30. Now, at that point in time, if we see volume continue to be softer than we expect, I think you can expect that some of these additional cost savings will come to bear fruit.

We announced a restructuring program in December. I think right now, it's still extremely bullish that these are numbers that we can hopefully meet or exceed and we're not going to be taking additional cost reduction initiatives, like a reduction of force or layoffs. We are very mindful of our cost structure and we are prudent, but I don't think you're going to see us take aggressive actions. But if we fall much below this \$2.90, our annual intent of compensation for management does not kick in, then that would be up to another \$0.20 of cushion in these numbers.

So net-net-net, again we're kind of moving through this quickly, but we are very bullish on this business. I personally am. As I said, I bought stock a couple weeks ago. I bought \$500,000 of stock after our third quarter earnings. I think this stock is extremely cheap. I think no matter how you look at what we've done, and what we said we were going to do, and what we did deliver over the last four or five years, we typically set ourselves up to meet or exceed expectations. This year, that's a big question mark given what's going on in the world, given the impact of FX, is this a year where we can actually beat our initial guidance. And I hope to say that we can and will. Right now, our guidance is still within the range, but about \$0.10 lower than what we initially guided.

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So with that, let me open it up to questions. We have about 20 minutes left.

QUESTIONS AND ANSWERS

Unidentified Audience Member

I'd be fascinated if you could just comment on the emerging markets given the dramatic devaluation, for example, in Eastern Europe, and Russia, and the ruble, and similarly just throughout the emerging world. How are you pricing -- do you effectively dollarize your product? And how much in the last couple months, elasticity of demand are you seeing in markets like Mexico and Russia, where the currency has gotten kind of annihilated. How much do you think if you do try and raise prices somewhat, you'll see actual volumes come off?

Rich Goudis - CFO - Herbalife Ltd.

A lot of questions in that one question. So let me try to hit the top of the one is, are we seeing --

Unidentified Audience Member

Final one is just Iceland. Just fascinated, what's happening there and why.

Rich Goudis - CFO - Herbalife Ltd.

Well, that's an easy one. Iceland is obviously a very small island culture, yet they're very brand loyal. So if they like your brand, they won't typically like the competitor, and we are very fortunate that we have a very good brand recognition in Iceland. We have some very strong leadership in that marketplace, and deep penetration.

But that we hang out to everybody. We show every other distributor in every other country and say, that's what it can be like if you work hard. That's the opportunity. With that, in the emerging markets, again, let's point to some that are on this page, right. Russia's on this page, Brazil's on this page, Mexico's on this page. Fortunately, when our distributors break down the paradigm shift from try selling to people on a monthly basis, which is just a very small piece of the marketplace, and take a look at the other page I showed you, which was the penetration being so low.

I don't think we're susceptible to countries that have fully penetrated and see those impacts very quickly. Right, fully penetrated companies, maybe like a Coca-Cola, gosh, a country snuffles, Coke gets a cold, right. We have so much headroom from a penetration standpoint, most of our Russia business is in the East of Russia. Most of them are going towards nutrition clubs, or what we call breakfast clubs, where they're paying a per day serving, and it's more access to the club, and the community, and the culture of the club, and that's what keeps them coming back. So fortunately, we have been seeing what you see from a currency or the political, we haven't seen that resonate or ripple back into our business as of yet. And we hope that our distributors can continue to stay focused on this mission of transitioning the business to daily consumption, so that we don't.

Mexico, interestingly enough, depending on which website you read from the government and they talked about repatriation of dollars being down. The net-net though, is that the value of a repatriated dollar today is more value than it was a year ago. So net-net, the purchasing power for those repatriated dollars is stronger today, even though that the repatriation may be down 20%, the value of the currency is down even more. So still the buying power of that person in that market should be more.

So those are the things that we look at as the bright spot. We try to reinforce to our distributors, to say, go out there. These customers of yours, they're eating breakfast somewhere else every day. They're out there trying to get better nutrition, try to

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live healthier, active lifestyle wise. This is our opportunity to bring that to them. At the same time, bring people affordability and income that they might not necessarily have either because of skill set issues, language barriers, or the like, or capital.

Allen?

Unidentified Audience Member

In December compared to January or February, say within the United States, were there less meetings held than there normally would be. And I guess, because normally in an economic environment that's slow, that normally favors the recruiting side for a company like yours, I thought.

Rich Goudis - CFO - Herbalife Ltd.

Right, and we've gone back, even when we went public, we've gone back in time to try to see if there are correlations between our business and slow or strong economic times. And we basically said there's no correlation, but we do firmly because intuitively that when people are out of work, or people have lost overtime, or they've been somewhat cut in hours that there's that desire to replace that income. We do believe that that population of people to talk grows. Now, the question is what do we do and do we take advantage of that opportunity.

Now, honestly we haven't gone back and looked at quarter by quarter over the last, like, five, ten, 15, 20 years to see that maybe within the year, the quarters might change a little bit. So that's why when we look at this number, are we concerned with that? Yes. We're definitely concerned with it, but are we to the point where we're going to shift our strategies? No, I think we're trying to understand why that is and I kind of alluded to some of the positive underlying metric there, which is the activity level, which tells us that it's really getting out and reengaging our sales team and getting them encouraged to make that additional sales call.

So if they had a person that was coming to the club four days a week and they're only coming three, well then we need to encourage that club operator to go find somebody to come into the club another day, or find a new club member to come in two or three days a week to replace that sale. And some of it is when we had what we had in the fourth quarter, there was a sense of fear and an uncertainty. I think as this has gone on, I think for most people, at least at the lower socioeconomic level, that fear is starting to become normal or just a normal way of life. And if anything, what we've seen at least from the US administration is that the aid, the stimulus package is going to help the low and middle income. I think if there's any fear that still remains, it's the fear of people in this room that know we're going to be the ones that fund that stimulus package, right.

So for this, that's a very important message to take to this level of organization to inspire them to go out and make those sales calls, to be engaged, to be active. It's still a value proposition, right, versus a Starbucks, a Denny's, a McDonald's. It's still an opportunity to earn supplemental income, regardless of what your age is, right, what your skill set is, what your language is, how much investment you can or can't make in the business. There are very few businesses that are like that. In addition, this is a meritocracy in our organization. It doesn't matter who's above you. It matters how hard you work and develop your organization below you.

And for people who have been downsized, right sized, outsourced, boy, those people typically don't want to go back into corporate America if they can find an opportunity like this. So that's kind of our message from stage, if you will, and from teaching and training, and we hope that that's what's going to be embraced. The last time we had a slow down in the US, our volume over a three year CAGR period was up 4% in volume. So we hope that that will be a consistent trend in this business.

Over here to the left. We're going to give you the microphone first.

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Unidentified Audience Member

Hi, can you just give more granularity in terms of the Mexican slope, because it's been a year now that you've seen a real deceleration in supervisors, and then in the last quarter a real falloff in productivity as well. So can you run through -- ?

Rich Goudis - CFO - Herbalife Ltd.

Yes, let's take some time and walk through this Mexico graph, if you will. Mexico was in a stage of triple digit growth in 2006 and about half of 2050. Actually became our number one market in the world. Sort of hit the wall through growth pains in late '06. 2007 was a period for us to rebuild that marketplace, expand access points. This is very much a cash and carry business. Again, that's where the strength on the balance sheet, our distributors pay cash for the product. There's no financing. The year 2007 was down 3%. I can tell you, for those folks who have known us for the last few years, 2007, people thought Mexico was going to fall off the cliff and it was going to be down 10%, 15%, 20%. In fact, it was down 3%. That shows, I think, the strength of the nutrition club model, the retailing format, the high retention in that marketplace.

We started to see the business start to improve. We thought that the second quarter a year ago was that inflection point. In the first quarter a year ago, volume was down about 1%. Second quarter in 2008, volume was up 1% and we said, okay, now we're behind this. We're going to start to see Mexico start to go, maybe not on this dramatic growth rate again, but we're going to start to see them resume a good level of growth. And then in late June, we lost a VAT appeal with the Mexican government, which forced us to pass along a 15% VAT tax to our distributors in the month of August. That affected us. We were down 8% in the third quarter and then I think a confluence of that plus maybe a few repatriated dollars, et cetera, we were down 23% in the fourth quarter.

Now, that being said, we were down 17% in January. So I think the worst is behind us. It's a market where we have to remind people, people who were earning at 2000, 2001 levels who are earning four and five times that, that it's time to get back to work. This is a great business opportunity but you have to work it, and I think our Mexican distributors realize that they have been pretty lax over the past couple of years. Basically because of the stability of the business model, their checks really haven't gone down. And like most of our independent folks, when their checks go down that's when you get their awareness. Because unlike what you're seeing here, somebody in Mexico, their check actually might be down in Mexico, but their check might be up in Panama, or Columbia, Costa Rica. So it's not just a -- you can't just look at the market and overreact to it. You have to look at that individual distributor and where they do their business. And that's a level of analytics that we look at and talk to them.

Unidentified Audience Member

Can you bring us up to date in terms of, you mentioned '07, the fear, but back then I remember I don't know how much materialized. There were issues in terms of fraud, in terms of people selling an unlicensed product, and then also you had to do a cull yourself of some of your in-force because you were unhappy with the practices. I'm not dating myself saying can you sort of --

Rich Goudis - CFO - Herbalife Ltd.

Yes, let me repeat what actually happened in '07, because some of the things you just said are incorrect, okay. With strong growth, okay, with lack of distribution gives rise to people trying to fill those distribution voids. One of the sacrosanct principles of our business is you have to buy from your up line or you have to buy directly from the company, so your up line can get the credit for that sale. What was happening is, in markets or in states where we did not have distribution points, very entrepreneurial distributors were driving a pickup truck to a distribution center, picking up product and then selling to people that were not in their organization.

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That gives rise to what we call cross line selling. Essentially what that does is that your up line is not getting credit for the sale. That creates a lack of confidence. Imagine, you're not sales force, but imagine if you were making sales and not getting credit for it. You'd stop making sales until you started getting credit for it, right, or you'd expect the company to stand up and do something about it. So that point, we never, never have I heard of anybody selling unlicensed products. So I wanted to scratch that one. That's not a fair comment. Okay, if that was on purpose, that's not fair.

Second, we did let go 10% of distributors. So we hold people accountable for their actions. First, we suspended them, then we terminated them. We terminated 10% of our business leaders. That led to some of this reduction, okay, but for those people that were left, that gave confidence to people that the company was going to do the right thing, that it was principles, that it is going to live by a code of conduct and hold distributors accountable for a code of conduct that is highly ethical. That's when the business was starting to recover, and it takes time.

It's a very large business, right. We doubled our distribution facilities from about 10 to 22, and in fact in the last quarter, of those new facilities which are in about 24 states now we have facilities, those markets were up double digits, about 40% of our volume in Mexico. 60% of our Mexico volume is still done in eight large states, like Mexico City, and that volume was down double digits. So we're seeing growth. We're seeing the opportunity and people working it hard, but I think some of the initial large markets, we still need people to get back to work.

Okay. Yes, in the back. We're going to hand you the mic.

Unidentified Audience Member

I just have a couple of questions. When you look at this industry historically, you look at Mary Kay, or Amway, or any of these companies, the business has been very momentum driven. So when things are up cycle, things always seem to do better than expected, and when things go into a down cycle, dollars seem to do worse than expected. And a couple of things which seemed to impact the business, one is that, I appreciate the fact that you think that the poor economies (inaudible) that, but recruiting. But sometimes what happens with that, the distributors get discouraged and they leave the business.

And the second thing is, it's been very difficult to sort of measure the amount of inventory in the hands of your customers. So can you just respond to that? I mean, you have gone through these cycles in the past and your competitors have as well. Do you have a sense that you have the opportunity to improve your compensation structure, in the event things get really bad? Do you have a sense how much inventory is out there and in the customers' hands?

Rich Goudis - CFO - Herbalife Ltd.

So let's kind of hit some of your points. As far as our compensation system, there's no plan today to enhance that. As I mentioned very quickly, but we pay out about \$0.73 of every retail \$1, and for people in this industry, this is probably one of the richest payout metrics, and this is excluding China. This is worldwide except China. So right now, there's no plans to enrich that, okay. What the plan is, is really through different methods of operation is to make sure our distributors are achieving the single biggest piece of that, which is that retail markup.

It's often very difficult if you're a good friend of mine, or if you're my brother for me to mark up a product to you. Right, so I may buy a product for \$1 and while I can mark it up to \$2, because you're my brother, here, pay what I paid, right. And culturally, we see that, for example like in a market like China. But when you run a nutrition club, okay, it sort of masks that particular price point, because now you're providing an experience, okay, and it's across three products. So when I charge you \$3 to come into my nutrition club, I'm achieving full retail.

Okay, that's the first thing we're trying to teach people because that's the single biggest component of the compensation plan, which sometimes, because initially people sell to their circle of influence, their friends and family, that's hard to achieve all of

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that. If you can go into a club model and you're achieving that retail profit, that's hugely profitable to people. And then that's why they stay in the business, that's why we see retention rates moving up, okay. So that's the biggest component we try to teach and work on, okay, and if there are distributors, let's say that I want to make sure that they know that we're not trying to tweak the compensation system up or down. Okay, it's pretty much sacrosanct the way it is.

From a standpoint of visibility, I think visibility is a very important word in this business from either visibility to our revenue, to our new reps, it's awfully difficult, I mean we're going to be the first ones to tell you that visibility in this business is extremely challenging. That's why we're typically very cautious in our guidance. We typically build in a lot of cushion up front and then we either work down that cushion if things don't go the way we want, or as you saw in that last slide was we beat our numbers, because for all the right reasons the cushion held. And for the first four years of being public, those cushions, for all different reasons, held and we exceeded our expectations.

Quite honestly, three months into the year we've given back a lot of that cushion already to hold the guidance where it is. Okay, and that's why people can't correlate a movement of volume up 3% to 4%, or 4% to 5% to plus or minus 1% and only a 10% reduction, because some of that cushion was given up just to keep the guidance there. I'm incentivized to do that because my earnings, my annual bonus is tied in that initial guidance. So for me to get a bonus, I am very much aligned to earnings per share.

As far as visibility into the channel, what I can say is while we don't have visibility into how much product a particular customer might have or a distributor might have, what I can tell you is a couple things. One is if you remember the Direct Selling Association, there are certain good practices that you engage in, loosely called the Amway Rules. These are rules that emerged over the last 20, 30, 40 years of Amway getting challenged by different attorney generals, primarily in the US. But it gave rise to good practices, to make sure that it wasn't inventory loading, or even potentially a pyramid scheme. Some of those things are, and those of you who have been with us, know that there's a ten customer rule. So when a supervisor orders, they need to provide a list of ten customers that they're retailing the product to. There's a 70% consumption rule where they have to sign an affidavit that says 70% of what they bought last month, they've either self-consumed or resold.

So these things help, I think, give us comfort that there's not a lot of inventory build in the channel. That's on the, let's say, the front side of it. The second side is we don't run promotions. We don't provide credit to drive those kind of behaviors that you might see in a retail world, where, hey, buy two and save, or buy one, get one free, or I'll extend terms to you. That in our last five, ten years that we've seen a lot of companies get in trouble with major retailers, right. And at the end there's a return policy. So if you buy a product and you're unhappy, you can return that for up to a year. Our return as a percent of sales is about 1%. Hasn't changed much. In fact, it's improving slightly. That's a health indicator to us. It tells us that there's not a lot of inventory in the channel that's coming back, number one.

Number two, when we run promotions, they typically are incentive promotions for people to stretch, and we typically don't run those in the last month of a quarter because we don't want to have volume move, let's say from April onto March and then all of a sudden you think we did a good job in the first quarter, and we're saying, well it wasn't as good as you thought, but that's in the record books, right. So we typically do those things intra-quarter so they kind of net themselves out.

Listen, being a public company with a business like this where the single biggest value is the balance sheet and the cash flow it generates, right, the visibility is probably the negative side in that it's very difficult to be precisely predictive on revenue. Now, what helps us is you saw that retention rate moving up. So when retention moves up and we know what an average person on average by market, excuse me, is going to order, that helps us start to close the gap of what we're actually trying to predict. And trying to narrow that prediction down to, okay, how many new people are coming in the business. And that number of new people coming in the business to get to our internal goals gets smaller and smaller every year, as the retention of our existing business builds. So that's a real good health indicator for our business.

A couple more questions, I think. Chris?

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Chris Ferrara - Merrill Lynch - Analyst

Yes, I'll take one. So in the US, either you look at the number of supervisors actually placing orders up 12% in the quarter. Why is that? Why are more people of your population of distributors ordering? I mean, were you guys doing something specifically to push that in the quarter?

Rich Goudis - CFO - Herbalife Ltd.

No, there was no promotion or no incentive that was actually going on in the quarter that would stimulate that. I think this just talks to the health of the club business, primarily and especially this is the Latino side that we talked about this statistic. The health of the business, that it's basically a -- and back to the question that this gentleman had in the back, that there's not a lot of inventory in the channel. It's a self-consumption type of business model and it's without credit, that we don't give credit to people. There's no terms. It's a cash and carry type of business so it creates a lot of velocity and stickiness.

Why was it up? I think because people are making money. All right, when people make money they stay in the business and they stay active. Now, the fact that the average order is down 13% I think is more indicative of how many club visitors they're getting, number one, and the frequency of those club visits, and more importantly how many club visitors are buying product and taking away. And that's the sensitive part in this model. The whole model was designed to break that paradigm so you served [each is], or individual servings. What our distributors have been able to do is up sell people to, hey Chris, what you need is, not you, let's say it's Christine, you need 1200 milligrams of calcium a day. Having this shake, you're only getting, with milk you're only getting 500. You need to take one of these supplements a day, okay, so they'll sell that bottle to Christine. Now, she's got her calcium.

So are those the sales that we're seeing fall off? Yes, those are the examples of what we're seeing where, when people are pushed they're fearful. Discretionary spending is down, holiday spending is up and they only have so much money. That's what we saw pull away from us, at least in the fourth quarter.

We're way too early at least through the, what we told people in January, to understand what exactly is going to materialize in the first quarter. But we hope that when that confidence comes back with these folks, that those purchases are going to come back. And if not, then what has to happen is our distributors have to be taught to fulfill those club visits that have been lost, and go out, stand on the corner, hand out leaflets, hand out fliers, and bring people back into your club.

Thank you very much.

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