

FINAL TRANSCRIPT

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HLF - Herbalife Ltd. at CanaccordAdams Healthy Living Conference

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PRESENTATION

Scott Van Winkle - *CanaccordAdams - Analyst*

Good afternoon, everyone. I will make this very quick. Rather than giving an Herbalife introduction, I will just say that Rich Goudis, Chief Financial Officer, you know one thing. Even though he lives in Southern California, he is rooting for Florida, not USC.

Rich Goudis - *Herbalife Ltd. - CFO*

That's easy for Scott to say after SC just lost this weekend. But first, very seriously, let's make sure we read the Safe Harbor statement. That will make everybody back in our General Counsel area very happy.

But happy to be here. Why Herbalife and why now? Start with the very compelling and strong financial position. Probably one of the most challenging economic times in our history, and through the first six months of the year, a free cash flow of 16.6%. A highly variable cost model, so we've been able to scale it appropriately with this market, and an underlevered balance sheet. And our credit facility not due until 2012 and 2013, respectively.

Around the world, our products line up to chase the obesity epidemic. And you will see some slides here that are going to be pretty interesting as far as around the world what is obesity starting to look like.

And then from a channel or a distribution standpoint, it is the people who are underemployed or unemployed who are becoming more and more extending and expanding our sales force.

We have a compelling distribution channel in 70 countries around the world. Our number one market is the US. Our number two market, interestingly, is Mexico. And we will kind of talk to you about what is driving those markets and why Mexico is such a large composition of our sales.

And the commitment to shareholder value. Over the last three years, we've repurchased over \$500 million in the Company's stock, and we've paid out nearly \$100 million in dividends.

And then lastly, a proven management team. Since 2003, we had a new management join the Company. You can see the inflection point on the top chart in terms of net sales. Michael Johnson, our CEO, previously was the President of Disney International, where he spent 18 years, primarily building the Buena Vista Home Video business. Michael has a great grasp of international business and working around the world in many cultures, currencies, political, economic environments, and has developed a very strong management team. And you can see that impact over the last few years in our top line.

Free cash flow is a real characteristic of this model. Typically, free cash approximates -- or I say net income is a good proxy for free cash flow.



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Right there in the middle, and maybe it is a little bit stretched out, but in this edition of Newsweek, people asked us just last week who were meeting with some investors, and they said, "Really, does China have obese people?" And for those of you who have traveled there, it may not be the amount of obesity as far as the number of people that we see here in the US if we go to Wal-Mart or movies or a Disney theme park, but it is -- from a percentage standpoint, the highest growth rate in the world is the amount of obesity emerging in China.

And if you think about China, where the culture is really transitioning from an industrial -- to an industrialized way of life and diet from an agricultural way of life and a diet, this is going to be something they are going to fight for a very long time.

Fortunately for us, our product line, on the right-hand side of this slide, 63% of our product line is in the weight management category. So we think we are very well positioned from our products to not only address the obesity epidemic, but also maybe help people sell for it.

Interestingly, also from a distribution channel, we are starting to see our channel distribution grow as more and more people are either unemployed or become unemployed, both here and around the world; but more importantly are the people who are underemployed. These are people who maybe have taken a new job but they are not earning as much as they used to. It may have been the cabdriver who took us over here today, someone who checked us in at the hotel last night, and on and on. And around the world, we are seeing much more of this.

On the bottom right-hand side is the growth rate in our distributor trend. As you can see, for the last three quarters, a very positive trend starting to emerge. We are going to make some changes in our commission structure in the fourth quarter. They are highlighted in the top right-hand box. With the hope that what it is going to do is it is going to grow our distributor organization; it's going to more organically produce people who are going to be business leaders or sales leaders in our business; and also drive and improve retention in retailing.

Why Herbalife, why now? It's the value proposition. It is whether I'm trading down for a more healthy meal with fewer calories, as depicted on the top left, or I'm trading down in terms of price, because the economy is tough and I don't have the same discretionary disposable income. You can see the Herbalife meal as a good healthy and fresh start to the day. And also from a standpoint of the amount you spend for it also significantly inexpensive.

So hold that thought there about this Herbalife on a daily basis, and we're going to touch this again, and why we are growing and getting deeper in certain markets is because our distributors have found a very creative way to sell you on a per-serving basis.

Some key facts for our business. Starting on the top left are the number of distributors and sales leaders in our business. And you can see that growth trend over the last four years.

On the top right is what does a distributor look for or what do they look like when they order directly from the Company? And for the most part, we really categorize these folks as discount buyers. 51% of the time last year when they ordered directly from the Company, their average purchase was about \$100 retail. Most of the people come into Herbalife think of it like buying a Costco card. They buy it to get access to great product that will help them lose weight.

You can see some become small retailers. This is people who have had success with the product. Now, people in their office or at home or their club or their church or wherever, are saying, "Oh gosh, Johnny or Cindy, you look great. What are you doing? How did you lose weight?" And they talk about Herbalife, and they start selling product to their circle of influence.

And it moves beyond that to what we call potential supervisors. These are folks now who are selling beyond their circle of influence, and now they're thinking about maybe becoming part of Herbalife as a part-time business. Those folks are on the bottom right. This is the recruiting of our sales leaders.



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And up to and through the first quarter, there was actually a downward trend over the last year. And that gave investors some reason for concern. I think with the performance in the second quarter and the outlook or the assumption that the worst is behind us, I think that is why we have a stock that is off its floor from March of \$12 and is kind of hovering around \$32, \$33, as investors get a better sense of the stability of this business model in these tough times.

And then lastly is the retention of our sales leader on the left. Our goal is to get this number to about 50%. Over the last few years, off of 2003 numbers of 28%, we've had good improvement up into the low 40s. We've had some market specific issues in Mexico and Venezuela over the last couple of years that has actually had that reduced a couple hundred basis points. But we believe over the next few years we will start to see that number emerge and strengthen.

A lot of numbers on this page. Let's start again at the top left and look at the last year, which is the green bars, in terms of volume points. The red line going across the slide is what we've done in terms of actuals this year, and what our guidance for 2009 assumes in terms of Q3 and Q4.

So you can see here very visibly the second quarter was our most difficult comp for several reasons. We had several promotions going on, whether as a worldwide promotion; there is also a specific promotion in China. And we never anniversaried that favorably last year. This year in the third quarter, our hope is that we are going to comp positive in the third quarter. I think if that does, it sets us up for a good end to 2009 and also to a more positive outlook for 2010.

The fourth quarter of 2009 obviously is a very easy comp. Last year, we had -- the world economy was kind of in a meltdown. The emotion within our sales organization, a lot of people just weren't as active or productive. We had some specific issues in markets like Mexico and Venezuela, which all led to a lower fourth quarter. So from the standpoint of comps, they get very easy from here to the end of the year.

And as well, if you think of -- in net sales terms, which is depicted on the top right chart, through the first six months of the year, we were pretty significantly impacted by the strengthening of the dollar over the last nine months.

In the last three months, the dollar has actually started to give back a lot of that gain. Last year, as an example, in June of last year, the Euro-dollar relationship was as high as 1.60, 1.61 to the dollar. At January of '09, that had strengthened to 1.24 to the dollar. And I think today it is probably 1.45, 1.47 to the dollar. So it has given back a lot of its strength. And that is a good thing for our business, again, because nearly 80% of our business is outside the US.

If you look at the bottom, from the standpoint of confidence, you start to see in some of these markets -- the US, our number one market, Mexico, our number two market, and China -- that we show good sequential growth. China is probably more of a seasonal impact coming out of their traditional low around Chinese New Year. But Mexico and the US were very strong. And I think, again, that gave investors a lot of confidence about the stability in these markets and the opportunity for future growth.

Our big theme at Herbalife, tying back to that slide where you saw the shake, is driving daily consumption. If you think about how Herbalife has evolved, it started out with going after a very small piece of the market, people who could afford maybe \$100 a month to get into a weight management program. What daily consumption does, it breaks it down into a daily serving. So you go to a nutrition club, as an example. You pay \$2.50 or \$3.00 here in the US, maybe 18 to 22 pesos in Mexico. And you have access to Herbalife on a daily basis. That has significantly opened up and created more access points for us. And we've seen that it our numbers.

And the way to depict it, if you look in the very, very top right, the graph, that is Mexico plotted back to 2000 -- I realize it is sort of an eyestrain. But in 2004 was the inflection, where Mexico went from growing double digits, 35%, 40%, to growing over 100% for an 18-month period, from end of '04 through the beginning of '06, because of nutrition clubs.



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You see to the left of that chart the US. And it would even be more dramatic if we showed you the US Latino segment of the business. When I started 5.5 years ago, the US business was comprised 65% Anglo, 35% Latino. Today, it is 68% Latino, 32% general market.

The Latinos in the US picked up that same nutrition club concept and have taken that widely through the US. And in fact, this morning, Amy Greene, our Head of Investor Relations, had some folks out to some clubs in the Chelsea area. So if you want to visit a club, please let us know and we will give you those addresses. But daily consumption, allowing more people access to Herbalife, especially in some of these emerging markets where not everybody has the financial wherewithal for the equivalent of \$100, to break it down into a daily basis, that is a big key strategic thrust for us.

And whether we do it through our distributors here in terms of nutrition clubs, whether we do it in terms of packaging, however we try to slice it, we are trying to create easier access points for people around the world to get access to Herbalife.

You can see those markets to the left here, where we've had some success with that, in the US and Mexico. Brazil and Taiwan are the most current markets to transition to these daily consumption models. And Korea, you can see in the very bottom graph, has done quite well with them as well.

What does this mean, and how do we articulate that internally? On the right-hand side, we look at it as volume points per capita. We look at two ways of growing this business. We say we are going to go deeper in our existing 70 markets or we are going to go wider. Today, we are in 70 countries. A company like Avon is in 130 countries. So there is opportunity to grow our business, get into new markets, which you will see us do. We are also going to go, and more importantly, go deeper in our existing markets.

So the key markets that are underpenetrated for us are countries like China, India, Indonesia, Argentina, Portugal. And you can see on the right-hand side, our company average, excluding China and India, is about one volume point, or think of that one retail dollar per capita. The US business is 2X that. Mexico is 5X. And Taiwan is almost 7X.

So these markets that have transitioned to daily consumption are doing a great job at driving deeper penetration. For example, that US number, if you looked at it as just Latino US, you would be somewhere around eight to nine volume points per capita. And there are certain states within Mexico that are as high as 15 volume points per capita. And in Iceland, at the very bottom, that is our dream state. If we can get the whole world to be at least 20 volume points per capita, we would be 20 times the size.

You can see the countries that we are going to go after in the next 12 months. We're going to open Vietnam here in the fourth quarter, and we are very excited about Vietnam. It has a very young population, and especially in the south of Vietnam, it is a very entrepreneurial environment. And so we are real excited about that.

Financial strength. No matter how you screen us, I think we come up pretty cheap on how you screen, whether it is free cash, whether it's EBITDA, whether it's EPS. And I think that this is why Herbalife is a very compelling story for US investors. Myself, I've bought over \$1.5 million of this stock in the last nine months. I am a firm believer of it. Our Company is; over the last three years, we've repurchased over \$500 million in stock.

And again, whether you value it on an earnings, whether you look at it from a cash flow standpoint, we are significantly underlevered. We like to be conservative in our capital structure. We try to use our free cash to find ways back to investors, hopefully in the form of share repurchase. If our stock is dislocated, we look at our facilities not due to 2012 and '13. But right now, given the credit markets, we will probably pay that off when it comes due, and just have a really squeaky clean balance sheet.

How have we done compared to our guidance? In 2005, when we went public in late '04, we guided \$1.10 to \$1.15. We delivered \$1.52. A year later in the end of '05, we guided \$1.80 to \$1.85 for 2006; we came in at \$2.06. In '07, again, it's the November timeframe of '06, we guided \$2.40 to \$2.47, and we came in at \$2.71. And the same last year. We guided \$3.17 to \$3.23. We turned in a year of \$3.53.



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This year has been a little bit different. We came out -- when other companies were not guiding, we gave guidance in December of last year of \$3.00 to \$3.20. In February, after we saw the slowdown in certain markets in the fourth quarter and also a slow start to the year, we took guidance down. We lost significant amount of market cap when we did that. I think for the most part investors didn't believe that \$2.90 to \$3.10; we didn't take it down enough, was sort of the feeling on Wall Street.

We went through our first quarter with good numbers. We took another quarter to wait and see what the trends were and how they were emerging. The dollar started to weaken. We tightened guidance in August. Probably there was an expectation from the Street that we were going to take guidance up. And we have one more quarter to go, and our hope is we get back in that same initial ZIP code, where \$3.00 is the floor, and we can find a way to outperform the expectations of Wall Street.

Again, we take this slide very seriously, our performance historically. We know this is a promise and we try to deliver on that promise.

So again, why Herbalife and why now? Our most difficult comp, the second quarter, is behind us, both in terms of volume and also with the dollar continuing to weaken. This is a Company that generates a significant amount of free cash, \$122 million through the first half of the year. It is not a business that is capital-intensive, and it is a high gross profit business.

Increasing emphasis on daily consumption. That is going to help us go deeper. And you've seen those statistics in the markets where that transition has occurred. Expanding our product line and geography. Next year, we're looking to introduce a very compelling satiety product in the first quarter, and also a high-antioxidant drink. We will enter new markets in the fourth quarter, Vietnam and Paraguay. Hopefully, another five or six new markets next year.

We'll continue to invest in our brand and our image, like you saw with the Galaxy. We just became the official nutrition sponsor of a soccer club in Valencia, Spain, for Inter Milan. And around the world, you are going to see more and more of this, a lot of it being really distributor co-op dollars, not just Company spending.

And lastly, a proven track record of creating value for shareholders. And I hope that is what you are going to find out from this point forward, as well.

Scott Van Winkle - CanaccordAdams - Analyst

(Inaudible-microphone inaccessible). A breakout around the corner, if you have any follow-up questions.

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