

FINAL TRANSCRIPT

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HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin Management Access Conference

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CORPORATE PARTICIPANTS

John DeSimone
Herbalife Ltd. - SVP Finance

PRESENTATION

Unidentified Participant

Let's get started. It's my pleasure to introduce our next presenter. It is going to be John DeSimone, SVP of Finance for Herbalife. John?

John DeSimone - *Herbalife Ltd. - SVP Finance*

Thank you, good morning. With me today is Amy Greene, our Vice President of Investor Relations. Before we get started, I would like point everybody to the Safe Harbor language in the presentation, which is also available on our website at www.herbalife.com, underneath the Investor Relations icon.

Why Herbalife? Why now? It is a theme we have used all year with our distributors around the world, and it's a theme that I think fits really well into the investment opportunity for Herbalife. This first page is a summary. There's four key takeaways.

The first key takeaway, and really if you take nothing else away, it is the growth opportunity that is in front of this company. This is a growth story. It has been a growth story for the last five years, and we think there is a lot of runway left.

The growth will come in a number of ways, but the number one strategy is to go deeper into the markets we're currently in, with a distribution model that has evolved, that penetrates to more consumers, increases the addressable population within a given marketplace. I'll spend most of the time of this presentation on that topic.

Additionally, we'll look to go wider. We'll look to open up new markets. We spent a significant amount of money to build a worldwide platform, system platform. We are on Oracle in every country but China. That provides a great scalable platform for us to launch new countries.

Additionally we have a product line that fits really well into the global obesity epidemic and we'll talk a little bit about that, and it also fits very well into direct selling. So that's the first point.

The second point, we have a strong financial record. We have a financial model that's very low capital, all right? So there's not a lot of capital required for us to grow our business. It's very high margin, and generates a lot of cash flow.

And our company has been very disciplined in the use of that cash, so Return on invested capital in 2008 was in excess of 44%. Five times the average of the S&P.

And then we have an operation model where -- or an MO within the company that if we can't invest the money and exceed our hurdle rates, we look to return it to shareholders. All right? We have a history of doing that. We returned over \$650 million to shareholders over the last three years, and that will continue to be part of our strategy, cash-use strategy.

Additionally, we have a proven management team. We have a management team that came in essentially in 2003, doubled the business on the top line in the last five years, and more than doubled the bottom line, and that far exceeds what our competitors have been able to do.



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I'll start the presentation off by speaking a little bit about our recent results and then we'll get into the story. What you see in front on this slide are our reported net sales, operating margin, and EPS numbers for the third quarter of 2009. The second column is the reported number in 2009 versus 2008, and the third number is currency adjusted. We have 80% of our volume, our business, is done outside of the US, and accordingly the strength of the dollar, the headwinds we faced over the last nine months has an impact on our results.

Our third quarter 2008 net sales number was \$602 million. And on a constant currency or local currency basis, that increased 750 basis points. 7.5%. Okay. On a reported basis, it decreased 0.3%. So it was a 780 basis point impact from currency headwinds.

That has changed, right? So our net sales lagged our volume growth; over the next 12 months we think our net sales will exceed our volume growth, because now we're facing a currency tailwind.

On the operating margin side, we have a 14.7% operating profit margin in 2008 third quarter. On a reported basis it dropped to 13%, but that was currency impacted. On a constant currency basis, it was up to 15.3%, and the biggest impact on our margins on currency is the fact that most of our product is manufactured in the US. So it's a US dollar denominated cost structure on revenue that is mostly generated outside the US.

On EPS, we had \$0.89 last year. We were down slightly this year on a reported basis, but we would have been up 21% on a constant dollar basis.

Now the growth story. I am going to start with a few foundational slides. And the foundational slide is the slides of the product. 63% of our product is in weight management. Weight management addresses the global obesity problem. You can see some magazine covers, some well publicized issues around the world that weight management products address. So one is, there's a megatrend out there, and our products fit that megatrend very well.

Two, weight loss products work really well for direct selling, and I'll tell you my own personal experience, okay? And I tell you this because I learned a lot from it. So when I joined Herbalife, I was 30 pounds heavier than I am now. And I lost the weight on the product, and what I found is I didn't have to tell my story. I had people coming -- everybody who knew me came up to me and asked me what I did. Right?

So it's a great person-to-person product, selling proposition, right? It's very testimonial based, very before and after. It's not faith. It's you can see it, you can feel it, you know it works. It works very well within the direct selling category.

The selling proposition. We're calling it -- we speak to it as trading up in nutrition, trading down in calories, and trading down in cost. Okay? So a traditional muffin and coffee breakfast, 1000 calories. An Herbalife shake, under 250 calories. Okay? So you're trading down in calories, you're getting better protein, better nutrition. Okay?

And most importantly, you can see on the bottom, the cost per serving is a lot cheaper than a traditional breakfast. This is a US example. This differs a little bit by country. But this is the selling proposition. Trade down economically, trade down in calories, trade up in nutrition, and that's what our distributors use when they go to market. Okay?

This is all foundational, like I said. The key to our growth strategy was getting this product offering from a traditional direct selling model to a model that people can buy on a per-serving basis. All right?

So traditional direct sales is characterized by medium to large purchases made very infrequently. Okay. So it's \$50. It's \$100. It's \$250, done once a month, once every other month. Okay? That skims the surface of the addressable population, because not a lot of people can afford to pay for a month's supply of product at a time.



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The evolution that is taking place within Herbalife -- and we'll talk about the genesis of it and where we are in this cycle -- is that our distributors are going to market what is called a daily consumption or club model where they found a way to sell our product on a daily fee basis. Okay?

So what does that do? That allows us to go deep in a population. A lot more people, a lot more potential consumers can afford to pay \$3 a day for the product versus \$90 a month for the product. So they have been able to increase the addressable population by coming up with a daily fee model.

Now what's that model? The genesis of the model was in Mexico, and it started with home clubs. A home club was a distributor who invited their customers to their home in the morning, and for 20 pesos, you could get a shake, a tea, and an aloe. Very affordable, you didn't have to come every day. But a very effective model.

Effective for a couple reasons, right? Less expensive, and I have a slide to illustrate this. But it's less expensive. It's also much more efficient for distributors. Okay? The traditional direct-selling model had distributors calling up their customers every month. All right? So you had to get on the phone, call your customer, find out where the order is, or call up and schedule an event to bring your customers to you.

Our distributors now have a platform where their customers come to them every day for the product. So they can service far more customers much more effectively, much more efficiently. So it's more profitable model for our distributors.

So the two benefits of daily consumption -- increases addressable population and much more efficient for our distributors.

To illustrate it a little better on a slide, we use an example of coffee. Right? And I think coffee is actually a perfect analogy. Okay? So McDonald's sells coffee. Let's say it is \$2 a cup. If McDonald's required you to purchase coffee one month at a time in advance, so you had to pay \$60, you got a card, and that was your coffee for the month, the amount of people that could participate in that opportunity is much smaller than people who can pay \$2 a day.

And that's what we have done with our product. And our product line fits really well into daily consumption. Our competitors don't have products that can be consumed every day. They don't have products they can sell on a daily basis. We have that. Okay?

I'm going to start with the Mexico story. Mexico is where the club started. And prior to club -- we call it a club inflection point. So daily consumption works differently in each market. Okay?

In Mexico, it was a home club. Very social culture. Very comfortable people coming over to their house. It started in 2001. All right. In direct selling, in a given market or subsegment of a market, once a model works, that's when you start to see it replicate. So it started in 2001. It started to really work in 2003, and that's where it started to replicate.

In 2003, this is nine months year to date figures, the volume points -- volume points for those who don't know, it's a proxy for unit volume -- were 75,000 for the 9-month period ending September 2002. In 2009, it was up five times that. Okay. That's the magic of daily consumption, right? It goes much deeper into a marketplace, and we'll talk about penetration rates in a little while. And that happened in 2003.

So the next question is, well, what took so long for that model to spread? Most of the other countries with an Herbalife saw that model as a model that can only work in Mexico. Very social culture. You bring people into your house. I wouldn't do that in the US, I wouldn't do it in Taiwan. I would do it in Korea.

But over time as Mexico became more successful, our distributors paid more attention to daily consumption. As they paid more attention to daily consumption, they tried to duplicate it. And we find that when a market really tries to duplicate it, there is still a 24-month period, maybe a little less, little more, but they figure out how to make it work in their market. All right?



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So Taiwan, for example, couldn't work with home clubs, so they came up with commercial and central clubs, where they rent a commercial establishment, no bigger than this, right? Very inexpensive, two, three, four, five distributors get together. They rent that space, and they run it as -- the same -- in similar method that Mexico ran the home clubs; they run it as a central club now. All right?

And there's a daily fee to come in. You come in, you get your shake, your tea, your aloe drink. So you are getting your breakfast, you're getting your nutrition. You're paying your 25 pesos a day, your \$3 a day, depending on the market you are in, and you are getting a healthy meal. And they found a way to make that work in Taiwan.

Once the mold broke outside of the Mexican culture, and the US Latino culture, other markets started saying, well if Taiwan can make it work, I can make it work. So Korea made it work. Now India is starting to make it work. Our growth in India is triple digits right now, and it's all being driven by daily consumption models, club models.

So where -- I'll do a little summary on where we are in various markets on daily consumption, and really illustrate the opportunity that is in front of us.

So this chart starts with Mexico. The blue bar is the penetration rates in 2003. Penetration rates we look at as volume points again. That's volume per population. Right? So volume per capita. In Mexico in 2003, the volume per capita was 1.2. So 1.2 volume points per person. Okay. In 2008, it exceeded 5. All right? All driven by daily consumption.

In 2006, the US Latino business, right, they found a way to make clubs work in their subsegment, and that was the inflection point. That's when they started replicating clubs. They went from a per capita rate of 2.3 to over 9. So 4 times. And that was in 2006.

Taiwan also took hold of clubs in 2006 and made more than double their penetration rate, and actually when we run '09 figures it will be a lot higher. Korea then took Taiwan's lead. They launched daily consumption, they are up over 50%.

Brazil is traditionally a recruiting market. They slowed down recruiting. Again, they tried to make the home clubs work. They didn't work. They finally found a model that worked with their culture. They have adopted that model, that model is now spreading, and their penetration rates are double.

And then we put India on here. It doesn't register, right? India is 0.0 before and 0.0 after, because the denominator of the population is so huge. But it's on here, because India broke our top 10 in volume points driven solely by daily consumption and it's a huge opportunity for us, if we're at that inflection point. Because there is a huge addressable population for our product.

And then total company to put it in perspective. Our total company per capita penetration rate for the countries we're in was 0.3; it's up to 0.6, it actually rounds up to 0.6, it's 0.56, okay? So it's under 1. All right. If we can get the average up to over 1, we double the company. All right? If we can get it up to Mexico's penetration rate, it's obviously a much bigger number. I won't tell you what it is, but we know what it is. We use it as a guidepost sometimes inside the company.

This is the number one strategy of the company. If you take nothing else away from this presentation, it's that our growth opportunity is from going deeper into the marketplace through a new distribution method that our distributors have employed. They have had success in one market. They are learning how to replicate that success in multiple markets, and that's the future.

Couple other strategies we're employing to augment the daily consumption strategy, and I should start with a little foundation. So we have distributors. Distributors are the lowest entry point into our business opportunity. Okay? They come in for as low as \$49 to buy a kit.



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And then we have sales leaders. And there's multiple steps from a distributor to a sales leader. So a distributor will get 25% off of the list price of the product, and no ability to make royalties. A new sales leader or supervisor will get 50% off, and the ability to earn royalties. Okay?

To become a new sales leader or new supervisor -- and I'm going to give you US figures, they differ depending on the country and the currency exchange rates. But to become a new sales leader, you have to buy \$2,800 worth of product in one month, or \$3,000 worth of products in two months. All right? Pretty big barrier to entry. All right? And that was traditionally the Herbalife direct-selling model. All right? Growth was driven by bringing people into the business as sales leaders.

The drive to daily consumption has shifted the importance of that metric. Because in daily consumption, the business is built over time. It is built slowly, through finding consumers who are in your club, getting them on the product, having them be products of the product, and work at the club for a period of time, then open up a club. So it drives people away from instant supervisors, or instant sales leaders. Okay?

What we have done in our change in our marketing plan is we have taken that \$3,000 that somebody had to spending over two months to become a sales leader, and we said you can spend that over 12 months. All right? And we tested this in Russia, a small sample size, but we tested it in Russia. And what we found is that people that became sales leaders over time were much more active and much more productive after they became a sales leader, and the reason is they were building consumers along the way. Whereas if you spend \$2,500, \$3,000 to become a supervisor, and now you have to go find customers, it's a high failure rate.

You don't have that failure rate when people build the business over time. So we have changed the marketing plan to let people qualify for this higher-level distributor, called new sales leaders, over time.

Secondly, we added a level between distributors and new sales leaders; it's called qualified producer. And qualified producers, you have to spend less than \$1,000 over a few-month period, and now you can have people you bring into the business that you can earn from.

So if you look at this chart, on the left-hand side that's what we pay out, and we pay that out to somebody all the time. It's fixed. All right? The bottom chart is the retail profit, so that's the discount. So if the retail price of a product was \$10, we would sell for \$5. Somebody would get that discount. Okay? Then we would pay royalties, then we pay production bonus, and then Mark Hughes Bonus.

But the majority of the payout, you can see, more than -- is the retail profit. Retail profit based off of 2008 figures was \$1.8 billion for our distributors. The royalties, production bonus and Mark Hughes Bonus was under \$800 million, so less than half.

So what the new marketing plan does is it takes that bottom retail piece and pushes it down. Gives people the ability to earn money sooner and checks from Herbalife sooner. Because we find when people start getting checks in the mail, that's when they stay engaged. That's when they stay in the business.

So that's the purpose of the marketing plan change. So I think the best way to look at the marketing plan change is it is a redesign to better support daily consumption --- if you take nothing else away from the marketing plan change.

Shifting distributor metrics, this is an important discussion, okay? Because traditionally Herbalife has disclosed new sales leaders as the metrics for judging the strength of the business. Okay? But as daily consumption has taken hold, we see that to be less and less important.

And we've seen that dislocation over the last 12 months. All right? We have had four straight quarters of sales leaders decline yet we're seeing volume growth, and we're seeing it because daily consumption drives supervisors over a bigger period of time. Less instant supervisors; more stable growth.



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Secondly, with this marketing plan change, we have structured the business now so people become a supervisor over a longer period of time less quickly. Which means people won't be becoming new supervisors at least until that pipeline is filled. They won't become new supervisors as quickly, so there will be a lag in our supervisor metric. Okay?

So what we're doing to augment the supervisor metric is adding new distributors, that's that lowest level. How many people are coming in the business at the lowest level? And the most importantly is active supervisors or active sales leaders. So how many of that higher distributor bucket, how many of those people are ordering product? How many of them are engaged?

And we've done our regression analysis on each. None of them are perfect, okay? But active supervisors has the best R-squared. So we're going to start disclosing this information formally next year. We do it informally on conference calls. We don't put it in our public filings yet, but that will be coming out.

Deeper and wider, this is a summary of -- it's bringing us back to what you heard on the first page. All right? The biggest opportunity for this company is deeper. The way we go deeper is daily consumption.

In addition to that we have a wider strategy. Going wider, which is opening new markets. Okay? We opened two markets in the fourth quarter, Vietnam and Paraguay. We're opening eight next year, and we'll continue to open five or six every year after that. And the reason we can do that effectively and efficiently is because we have that worldwide platform we built, that one system Oracle that our whole company operates on. It makes it very easy to open up new markets.

So there is a wider component to our strategy. It's not as meaningful as deeper, because the countries we are in today represents 75% of the world's population; the countries we're not in represents 25%. There's a huge opportunity in that 75% that we're going after. But this is an element of our strategy.

Financial summary. Volume points -- again, volume points is a proxy for unit growth. Over the last five years, the CAGR is 8%. Net sales, it has been 11%. You can see a dip in 2008; that dip is currency related.

So the difference between volume points and net sales, there's three things. The first driver is currency, and the translation of that volume to net sales. The second, there could be a price change. We do take price increases every year in numerous markets, and we try to do that with inflation. And third could be country mix. Okay. But the major driver is currency.

Strong cash flow, strong balance sheet. Important for investors to take away. Our debt to EBITDA ratio is 1. Our net debt to EBITDA ratio is much less. Our cash flow from operations is in excess of \$200 million this year, through nine months. And we, I said it earlier in the presentation -- our motto is to return as much of that cash to shareholders as we can if we can't invest it and receive a return in excess of our hurdle rates.

This is a slide on how much money we have returned to shareholders over the last three years. We do it through two ways. We have a dividend; it's a standard dividend. We haven't taken it up in a while.

And we do share repurchase. And the reason we do share repurchase as opposed to taking dividends up is we believe our shares are dislocated from the intrinsic value of the company. And we'll deal with that on the next page. But as long as our shares are dislocated from their intrinsic value, we will continue to use our excess cash to buy back stock.

We purchased over \$500 million of stock, and another \$150 million in dividends over the last three years, and that's something you will continue to see. And that in excess of our peer group.

So if I were interested -- if I were an investor and I were interested in this sector, there would be two things I would do. The second thing I would do is go see nutrition clubs, go see commercial clubs, understand the model better. The first thing I would do is look at this slide. All right? This slide compares us to our peer group.



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In almost every category we have in the past exceeded their growth, exceeded their margins, exceeded their return to shareholders, okay? And our future we think is brighter than our peer group, yet our P/E is lower. We think that's temporary. We work hard and we have an initiative to get this message out as much as we can, because I think the reason our P/E is lower than our peer group is the story is just not fully understood.

Now maybe that's us, we haven't explained it well. So we are going to go out and explain it better. And so we think this is a big opportunity from an investment standpoint, because at some point in time our P/E will catch up to the peer group. So if you are interested in this sector, come to this slide first then go to our nutrition clubs.

Guidance. This is public. Okay. We have guided Q4 volume growth of 8.5% to 9.5%. That translates to 15.5% to 16.5% net sales growth, and that's all from the dollar weakening versus where it was a year ago. That's the delta between the volume and the net sales growth. For 2010, we have volume growth of 5% to 6%, and that translates to net sales growth of 11% to 13%.

EPS range for 2009 is \$0.88 to \$0.91, and for the full year this year, it's in the range of \$3.19 to \$3.22. And for next year it is \$3.50 to \$3.65. There is an important component I'll talk about on the next slide, which is how we treated Venezuela; I think we are out in front of the Venezuela this year, and we'll talk about that in a minute.

Capital expenditure. It is a very low capital business. We are guiding 65 to \$75 million next year. That includes an investment of 10 to \$13 million in the new manufacturing facility we purchased. We have developed a manufacturing strategy which we'll discuss in more detail at our investor day next week, so I'm not going to take any time today.

But even with the purchase of that manufacturing facility, which was \$10 million, and the added expenditures to get that capacity to where we need it, of another \$10 million to \$13 million, it's a very low capital expenditure for something that will get us 30% to 35% of our capacity needs.

So Venezuela. So there's probably a different knowledge base on Venezuela out here in this room, so I'll start from the beginning. Venezuela has two exchange rates. Everybody knows that. They have an official rate, and they have a curb rate. The official rate is controlled by the government. Your access to official rate dollars, it was available in 2008, difficult to get, but still available. Okay?

We made a change in our compensation plan to distributors in late 2008 to pay the distributors at the curb rate. That hurt our volume in Venezuela. Right thing to do, we had to do it, but it was demotivating for them, and it took volume away.

Secondly, in early 2009, CADVI, which is the government's official agency to get official rate dollars, effectively closed. They closed the access to official rate dollars, so you couldn't get money out starting March of 2009.

In October 2009, the Venezuelan government backed a US dollar denominated bond offering. It was a \$3 billion offering. They upped it to \$5 billion. There was \$19 billion ordered. We ordered a significant amount. When the government allocated those orders out, they allocated any company that ordered more than \$1 million, they allocated zero. So we were given no money through the official or through this bond offering. Huge signal things that things weren't going to get better.

What the bond offering did do is it drove the curb rate down. The curb rate was in the high 6s, 6.5 to 7 range; it drove it down to the low 5s. So we made the decision, and we announced this decision that we were going to take all of our excess cash in Venezuela and convert it to dollars in the fourth quarter at this lower rate, and we have done that.

And the impact of that is not in our guidance. That onetime impact for this catchup -- this has 2007 dividends, 2008 dividends, Venezuelan dividends in it that never got paid. So this is a catchup. That's not in our guidance.



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What is in our guidance next year is that we assume any new cash that's generated in Venezuela is repatriated at the curb rate. So what that effectively does is if Venezuela goes hyperinflationary, it has no impact on our bottom line. So there's no more future build-up in cash, and we made that announcement about a month ago.

And now you are seeing in the press a lot of other companies who haven't given their guidance that way, and now their guidance is going to have to be adjusted, or certainly analysts are taking the guidance down, because of the impact of Venezuela. So the guidance that we are giving you for 2010 already includes the impact of Venezuela.

What's not included in the top line is if they go hyperinflationary. So the way it works is sales through net income is all recorded at the official rate. And then when you take money out that translation loss, that exchange loss, is in SG&A. If they go hyperinflationary every line gets translated at the curb rate.

So the bottom line impact to our guidance won't change, but the geography of where we record that will, if we go hyperinflationary. So the key message is the impact of Venezuela is already in our guidance today. For us as a company, you don't have to worry about that for next year.

Guidance. This is a history of guidance. We look at guidance as a promise, right? That's what Rich Goudis, the CFO, would tell you, and we have great discipline in the company in focusing on our forecast. We have one system worldwide, easy access to information, and we tend to at least deliver on our forecast, deliver on our promise almost all the time.

Now I know in 2009, very difficult year to forecast. There was a little bit of volatility, but the original projection of earnings was \$3 to \$3.20, and our latest guidance for the year is in excess of that, \$3.19 to \$3.23, so ultimately, we still hit our promise for this year.

Our promise for next year is \$3.50 to \$3.65. That would have been \$0.20 higher had we not treated Venezuela the way we treated Venezuela. So that's already in that number. I don't want you to take away from this slide that we sandbag, because we always beat the number, because that's not the message, okay? But the message is we have a lot of discipline on forecast; and whatever we tell you, it in our mind is a promise, and that's what we drive to.

In conclusion, so what is the takeaway? The first takeaway and the most important part of this presentation is that the expansion of daily consumption provides significant growth opportunity for this company. This is a growth story, that's the message. Second is our business trends are improving, and that improvement in business trends supports everything we're telling you about the benefit of daily consumption.

Third is our guidance shows very strong growth despite a difficult year, in '09 and '10. Our '10 guidance, it's on the slide, but I'll reiterate the point. The guidance we gave you was based on spot rates as of the end of September. So as spot rates change, that could change the guidance -- not change the guidance, but change the results. And that '10 guidance includes Venezuela.

And third, we have great discipline with cash. Right? We are committed to returning our excess cash to the shareholders if we can't find a way to invest it and provide the proper return.

So -- and with that -- I think we do a Q&A? Questions? How much time do we have?

QUESTIONS AND ANSWERS

Unidentified Participant

Five minutes.



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John DeSimone - Herbalife Ltd. - SVP Finance

Five minutes. Questions? Yes?

Unidentified Audience Member

Can you talk about any (inaudible) budget on VAT?

John DeSimone - Herbalife Ltd. - SVP Finance

Okay. I'll repeat the question for the webcast. The impact on the budget or I guess the forecast, you are saying, for Mexico VAT?

So for those who don't know, we were forced to implement a VAT on our products in Mexico in August 2008. We've now annualized that. But that was a 15% VAT, it was effectively a 15% price increase, and it had an impact on our volume.

We have been able to reformulate some of our product to avoid that VAT, and there's ways to do that that are legal, and we have done that. And that takes maybe our VAT-able product from in the high 60% to about 30% of our products will now will be VAT-able instead of in the high 60s. That is implementing this quarter, in Q4.

We have obviously annualized the impact of VAT. So we saw some growth in Mexico in September, after we hit that annualization. We saw 6% growth; we disclosed that in the third quarter press release.

And when you say impact on the budget, we have accounted for the change in VAT-able product in our budget. We don't give guidance by region, so I'm not going to speak to the Mexico growth rate that's assumed in our forecast. Nothing else? Yes?

Unidentified Audience Member

Remind me what the hedge policy is for (inaudible) currency.

John DeSimone - Herbalife Ltd. - SVP Finance

Okay. So obviously we are 80% outside -- the question related to what our hedge policies are. We break our hedging strategies into two budgets. Okay? So there is currencies where we have hedge accounting, and currencies where we don't have hedge accounting. When you don't have hedge accounting, you really can't hedge out too far because you can't match it.

So if we hedged Q4 of 2010 now, we would have to mark that to market every quarter right on the P&L. So if rates changed, we'd take the hit on the rate change now and get the benefit four quarters from now. So there's no matching principle when you don't get hedge accounting.

So for those currencies, we just hedge those currencies at the beginning of each quarter for that quarter. So in October we hedged Q4. Okay. And up until this point, we have had hedge accounting for zero currencies.

Starting in 2010 we're able to get hedge accounting for the euro, and for about 30% of our exposure on the peso. Now, of our currency exposures, 30% of our exposure is in the peso, another 30% is in the euro. So those are the two big ones. The rest are all really small.



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Hedge accounting treatment? You can't hedge translation, you can hedge transactions, so you have to have transactions to use as a proxy for translations to get hedge accounting. So we had to put those in place, and that's why we're just now getting hedge accounting treatment in the euro.

So going forward we will have an 18-month hedging strategy. It's the step approach. In the current quarter where we get hedge accounting we'll hedge 90% of our exposure. The subsequent quarter will be 75%. Subsequent quarter, 50%. And you work your way down 18 months out.

And in every quarter that step rolls forward. So you take your 75% hedge for the second quarter, and when you are in that quarter you up it to 90%. So you're averaging it.

So on the euro next year, we'll be able to average in. We're slightly hedged right now, but a very small piece. We're hedged only slightly on the euro and not at all on the peso.

Unidentified Audience Member

(inaudible) Once January rolls around then you can start layering (inaudible)?

John DeSimone - Herbalife Ltd. - SVP Finance

Going to start layering on in January. That's right. And then long term which you'll hear more about next week is there are some strategies to create some natural hedges in some of these markets. So we are not as exposed to the dollar.

Unidentified Audience Member

(inaudible question -- microphone inaccessible)

John DeSimone - Herbalife Ltd. - SVP Finance

We are substantially hedged for Q4.

Unidentified Audience Member

(inaudible) Do you guys have some product that might get a benefit from all that swine flu scare? (inaudible)

John DeSimone - Herbalife Ltd. - SVP Finance

So we're launching a hand sanitizer, which for clubs, for the people-to-people business, it is a great product. Every time you come in a club, you can use the hand sanitizer.

So we have a Best Defense product, which is an immunity product. We already have it, it works great. If you don't have it, it's in your bag I think. Please get it, take it before you fly. It works really well.

But the only new one we're launching is the hand sanitizer.



Dec. 09. 2009 / 7:15PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin Management Access Conference

Unidentified Audience Member

(inaudible question -- microphone inaccessible)

John DeSimone - Herbalife Ltd. - SVP Finance

Yes, it's a great product. I have been on the edge of a cold for seven days. You can hear it in my voice, my congestion. But I take three of those a day, and the cold hasn't set in, so it's a good product. Okay? Well, thank you.

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