

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call**

**Event Date/Time: Feb. 24. 2010 / 4:00PM GMT**



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Brett Chapman**

*Herbalife Ltd. - General Counsel*

**Michael Johnson**

*Herbalife Ltd. - Chairman and CEO*

**Desmond Walsh**

*Herbalife Ltd. - President*

**John DeSimone**

*Herbalife Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Doug Lane**

*Jefferies & Company - Analyst*

**Chris Ferrara**

*BofA Merrill Lynch - Analyst*

**Bret Jordan**

*Avondale Partners - Analyst*

**Tim Ramey**

*D.A. Davidson & Co. - Analyst*

## PRESENTATION

**Operator**

Good morning, and thank you for joining the fourth quarter and full-year 2009 earnings conference call for Herbalife Ltd. On the call today is Michael Johnson, the Company's Chairman and CEO; the Company's President, Des Walsh; John DeSimone, the Company's CFO; and Brett Chapman, the Company's General Counsel.

I would now like to turn the call over to Brett Chapman to read the Company's Safe Harbor language.

---

**Brett Chapman - Herbalife Ltd. - General Counsel**

Before we begin, and as a reminder, during this conference call comments may be made that include some forward-looking statements. These statements involve risks and uncertainty and, as you know, actual results may differ materially from those discussed or anticipated. We encourage you to refer to yesterday's earnings release and our SEC filings for a complete discussion the risks associated with these forward-looking statements, and with our business.

In addition, during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements, which were prepared in accordance with US Generally Accepted Accounting Principles, referred to by the Securities & Exchange Commission as non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors in evaluating and comparing period-to-period results of operations in a more meaningful and consistent manner. Please refer to the Investor Relations section of our website, Herbalife.com, to find our fourth quarter and full-year 2009 press release containing a reconciliation of these measures. Additionally, when management makes reference to volume during this conference call, they are referring to volume points.

I'll now turn the call over to Michael.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Michael Johnson** - Herbalife Ltd. - Chairman and CEO

Good morning, and welcome to our fourth quarter earnings call.

We had another strong quarter and year. 2009 was full of unique challenges, and we sit here today stronger from the lessons we learned, and proud that around the world Team Herbalife rose to the test. We had a record-setting volume in 2009, culminating in our strongest fourth quarter revenue and EPS in the Company's history. Our results can be summed up simply. Our business continues to gain momentum, led by engaged distributors driving daily use of Herbalife products to more consumers in deeper end markets around the world. Yesterday, we reported an adjusted EPS of \$0.98, which beat the high end of the guidance by \$0.07, and was \$0.28 above 2008 results.

The stronger than expected fourth quarter performance was led by local currency sales growth of 15.8% versus 2008. The ongoing growth of local currency sales provides further validation to us that daily consumption methods are taking hold in many markets, and that they are an effective way for our distributors to build their businesses. In the fourth quarter, our distributors' use of daily consumption methods, coupled with new marketing-planned enhancements implemented during the quarter, helped drive a 15% increase in new distributors, a slight increase in new sales leaders, and a 7% increase in the number of average active sales leaders.

To further illustrate the strength we are seeing in our business, the 2009 requalification of sales leaders reached a record 43%, up from 40% last year, and we believe it to be one of the highest in our industry. The broad strength of the quarter in terms of local currency sales growth is best represented by the fact that five of our six regions, and nine of our top ten markets, experienced growth during the quarter.

Our reported net sales in the quarter increased 23% compared to 2008; again, reflecting the strong growth in local currency, coupled with an FX tailwind of 720 basis points. Once again, the broad strength of our business was reflected in the fact that nine of our top ten markets reported year-over-year net sales growth, and collectively our top ten markets reported a growth of 11.9%, excluding benefit from currency fluctuations. Inclusive of currency benefit, those top ten markets grew 28.8%.

As investors have come to appreciate, Herbalife's business model generates a large amount of free cash flow. In 2009, we generated a record \$285 million in cash flow from operations, which was an increase of 4.4% compared to 2008. Since the end of 2008, we have lowered our net debt by \$101 million to \$99.5 million, while returning \$123 million in cash to shareholders throughout both our dividend and share repurchase programs. We are in an enviable position, with a conservatively-levered balance sheet.

2009 was a challenging year for most companies around the world. In November, we told you that throughout the organization, at every level, we were committed to driving volume growth in 2009. We are proud to have generated record volume points, despite the economic turbulence felt around the world. Our distributors have accomplished something few others can claim; they were able to drive record volume in 2009. We ended the year on a high note, posting record fourth quarter revenues and EPS results. It is this excitement that we will carry with us this year, as we celebrate our 30th anniversary.

Recently, we welcomed our fourth member to our prestigious Founder Circle, Enrique Varela and Graciela Mier from Zacatecas, Mexico, who are founders of our nutrition club DMO. We also welcomed new Chairman's Club distributors from Korea, Mrs. Park and Mr. Kang, along with 20 new members to our President's Team from around the world. There is one new President's Team member in particular that I would like to mention. This is our first President's Team member from Lesotho, Africa. Critics believe that direct selling is characterized by infrequent large-sized purchases. They would never believe that our business could be successful on a large scale throughout South Africa; but daily consumption, driven by small purchases made frequently, has proven to be an outstanding model, and one which is opening our eyes to what could be possible in this incredibly large and untapped Continent.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

On the product front, during the fourth quarter we introduced six new and improved products in the US, and continued the globalization of key products. We strive to continually improve our products, and as such, we are in the process of upgrading and improving key products in our weight management and targeted nutrition lines for release in 2010. Another key element of our product strategy is the globalization of our portfolio. By the end of 2009, we had introduced more than 60 new or reformulated products across 72 countries.

We continue to be very confident about future of Herbalife. It is that confidence in the momentum of our business that allows us to increase our full-year 2009 guidance, and guide to 15% to 17% EPS growth for the first quarter.

There appears to be some confusion about first quarter guidance. We want to take the opportunity to address this issue. We are guiding to between 3% and 4% volume growth for the quarter, and 5% to 6% for the year. The first quarter volume guidance includes the impact of lapping the Taiwanese government coupon program, which benefited our first quarter 2008 results by between 12 million and 15 million volume points. Were it not for that event, our volume guidance would have been 5% to 6% for the quarter and for the year. And despite the strengthening of the dollar since we last discussed guidance in late December, given the strong performance of our key markets coupled with the current positive business trends, we are raising our full-year 2010 EPS guidance by \$0.05, to \$3.58 to \$3.70.

In three weeks, our top distributors from around the world will gather in Orlando, Florida for our annual leadership summit, where we will begin to celebrate Herbalife's three decades of success, and introduce our roadmap for growth during the next decade; the one we call the Herbalife Decade.

With that brief overview, let me turn it over to Des for specific market updates. Des is joining us from Lisbon, where he is taking part in a strategy session with our Europe, Middle East and Africa's local management and distributor leadership. [Engia], Des.

---

**Desmond Walsh** - Herbalife Ltd. - President

Thank you, Michael.

I have just completed two days of meetings here, and am excited about the initiatives being implemented to continue the positive momentum we are experiencing in many parts of EMEA. Around the world, we were pleased to see the momentum that our business gained as we closed out 2009, and as we have begun 2010. During the fourth quarter, we saw local currency net sales growth in all of our regions except for China, which, as we have mentioned in the past, is in the early phases of the transition to a model based on daily use of our products.

Before I begin our regional overview, let me take a moment to mention a new business metric that we have begun to share with the investment community, average active sales leaders. As we have discussed before, the evolution of the distributors' business methods to more of a daily model is driving a shift in the metrics we disclose. We believe average active sales leaders is a better measurement of engagement levels, and we have made available historical data for this metric on our website.

Now let me provide highlights from our top markets. Our number one market, the United States, accounted for 19.5% of the Company's reported net sales, and grew 17% versus the same quarter last year, well ahead of our expectations. We are proud of the fact that unlike many companies, we were able to grow our US business in 2009. In the fourth quarter, the United States Latin market represented 67% of the country's net sales, and was up 22.1% versus the prior year. We were pleased to see that new distributors, new sales leaders, and average active sales leaders, all increased in the quarter. New distributors were up 3.4%, while new sales leaders increased 1.3%. Average active sales leaders increased 21.7%.

Our US Latin business remains a vital and growing area, with what we believe to be years of additional growth opportunities ahead. For example, per capita consumption among the Latin population of the Chicago metro market is now over \$19, while our national average is approximately \$9.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

New sales in the general segment of the US market were basically flat versus the fourth quarter in 2008. New distributors increased 6% in the quarter, both new sales leaders and active sales leaders declined in the quarter, down 14.5 and 3.4% respectively. However, we believe that general market leadership is becoming more active, hosting more meetings in cities around the country. We are optimistic that this increased activity will lead to new sales growth in the general market later this year.

Moving on to Mexico, our second-largest market. The fourth quarter is the first full quarter where we have anniversaried the implementation of the 15% VAT that negatively impacted our net sales beginning in August 2008. Local currency net sales for the quarter increased 8.2%. New sales leaders increased 18.7% year-over-year in the quarter. We are excited to see average active sales leaders increase by 2.4%, compared to the prior-year period. Early in the fourth quarter, Mexico launched a successful recruiting and brand-building initiative that resulted in strong new distributor growth of 21.4% in the quarter.

Mexico is the birthplace of Herbalife's nutrition clubs. The stability of the Mexican business further validates to us one of the key benefits of the daily consumption model; consistency despite adversity. As further evidence of this, Enrique and Chela Varela, from Mexico, who created the nutrition club model, have recently become only our fourth distributor to achieve the highest level in our marketing plan, that of Founder Circle, thanks to the daily consumption model.

One of our largest logistical issues in Mexico has been access to Herbalife product. We expanded our Herbalife distribution centers from two in 2006 to 21 in 2009. In the fourth quarter, we have completed a test of distributor pick-up locations within a chain of retail stores throughout Mexico. We were very pleased with the results of the test, and have begun to roll the program out throughout much of the country. By the end of the first quarter, distributors will be able to place their order with Herbalife, and then pick up the product in any of approximately 300 retail locations.

Now let's turn to China, where local currency net sales decreased 2.9% in the fourth quarter compared to the prior-year period. A little over a year ago, we began to introduce the club concept into this unique market, due to the strong success the clubs were demonstrating in Korea and Taiwan. As we have seen in other markets, including Brazil, the process takes up to 24 months to localize, train, and replicate, before we will begin to see what we believe to be strong sustainable growth. We believe that our sales leaders in China are making progress acculturating the concept of daily consumption, and that clubs will enhance our strong business foundation in China. In addition to the five new licenses we received in July, which brings our total count to 11 provinces, we applied for five new provincial licenses in September.

Brazil, which is our fourth largest market this quarter, continues its successful evolution to the daily consumption model. As a result, local currency revenue increased by 25.3%. Fourth quarter new sales leaders were down 15.6% compared to the prior year, but average sales leaders ordering increased by 7.4% compared to the prior-year period. We believe that these metrics are indicative of the transition we have been talking about for the past few years, and while the metrics with distinctly different from those we see in markets using traditional business methods, Brazil is another good example of why new sales leader growth is not always a metric that directly correlates to, or is predictive of, volume-point growth. As daily consumption has come to play a larger role in Brazil's growth, sales leader retention has increased from less than 30% in 2007 to more than 40% in the most recent 2009 requalification. This increase is attributable to the ongoing transformation of this market from a model that was based more on recruiting, to a model grounded in daily consumption.

EMEA has been a challenging region for the past several years for Herbalife, and most of our competitors. You may remember that we announced in mid-2009 that we had new internal leadership in the region, a 20-year Herbalife veteran with a strong sales leadership background. We still have challenges ahead, but are pleased to say that the volume points in the region increased in the fourth quarter, and that this strength was led by the emerging market countries of Central and Eastern Europe.

Lastly, let me spend a few minutes discussing with you some of our key markets in Asia Pacific specifically Taiwan and Korea. Both Taiwan and Korea have increased their adoption of daily consumption methods over the past few years, and this continues to be a key driver of their growth. During the fourth quarter, local currency sales were up 115.1% in Korea, due to the expansion of daily consumption in the market. Korea expanded the concept of a Premium HOM, or Herbalife Opportunity Meeting, hosted



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

around dinner in a premium hotel. These informational meetings have been hugely successful, with a high percentage of conversion from guest to distributor. The concept is now being adopted throughout the Asia Pacific region. Average active sales leaders in Korea increased 64% in the fourth quarter compared to the prior-year period.

And India, while it was not a top-ten market for us in the fourth quarter, had volume-point growth of 82%, and continues to be a market that we believe has the opportunity for tremendous growth. Daily consumption continues to be the driver in India. New distributors in India increased 148% in the fourth quarter, and new sales leaders grew more than 110%, both compared to the prior-year period. We are building a strong foundation in India, with engaged leadership growing their business through the expansion of daily consumption.

During the fourth quarter we opened two new markets, Vietnam and Paraguay. We are very pleased with the progress being made in both countries. As we mentioned at our Analyst Day in December, we have taken a very slow and conservative approach to opening these new markets. In Vietnam, we instituted order size limits and mandatory ethics training, in what we believe will serve to build this and other new markets with strong fundamentals and a solid base of business more resistant to the hypergrowth, pop-and-drop scenario experienced occasionally in the past when opening a new country.

As we have been discussing with you for the past several quarters, we believe that there is an ongoing transformation within our business. The daily consumption model has taken hold in some of our largest markets, and it continues to expand into more of our existing markets every day. Nutrition clubs, in their various forms around the world, are driving a significant portion of our volume growth. While we talk about the localization of clubs across the globe, it is important to understand that we believe we are still in the early innings of their growth in most of our markets.

Now let me pass the call over to John to review the financials.

---

**John DeSimone** - Herbalife Ltd. - CFO

Thank you, Des.

To start the financial update portion of the call, we'll begin with a summary of the fourth quarter financial performance compared to the guidance we provided in November and to the prior year, and we will conclude with a review of our guidance for the first quarter and full year 2010. In comparing our fourth quarter results to our previous guidance, adjusted EPS of \$0.98 was \$0.07 above the high end of our guidance range, primarily reflecting a benefit of higher local currency sales, which was partially offset by the impact of a higher than expected effective tax rate.

With respect to local currency sales, the higher than expected increase was partially a result of very successful promotions implemented in December, which were designed to drive distributor activity and recruiting, as well as create momentum heading into 2010. Our distributors were very responsive to these promotions, successfully implementing them to drive sales above expectations. As a result, our volume growth in the fourth quarter of 12.3% was 280 basis points above our guidance. As Michael mentioned earlier, this is not only a great way to end 2009 but a fantastic beginning to 2010.

Comparing the fourth quarter results to last year, net sales increased 23%. The reported number included a 720-basis point benefit as a result of currency tailwinds. Local currency net sales increased 15.8%, and was comprised of the following regional results. Asia Pacific increased 44.4%, with growth in Korea and Taiwan reporting 115.1% and 31.8% increases, respectively. South and Central America increased 17.7%, led by growth in Brazil of 25.3%. North America increased 15.6%, reflecting strong growth of 22.1% in the US Latin market. Mexico increased 8.2%, the first quarter of local currency growth since the second quarter of 2008, prior to the implementation of the VAT. EMEA had growth of 1.7%, and China decreased 2.9%, representative of the transition to daily consumption that Des spoke to earlier. With respect to our top ten countries, which represented approximately 73% of total revenue for the quarter, as a group they reported strong local currency growth of 22.3%, indicating the broad strength and underlying momentum in our business as we exited 2009.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

Turning to gross margin for the quarter, while foreign currency had a negative 210-basis point impact in the quarter compared to the prior year, we were able to offset 110 basis points of this impact through cost savings and price increases. SG&A improved 260 basis points in the fourth quarter, reflecting the leverage that is possible in our business model as volume increases. The \$0.29 improve in fourth quarter EPS compared to the prior year is primarily the result of increased volume. Currency had very little impact on EPS in the quarter, as the currency benefit recognized in net sales was offset by the negative impact of cost of sales, SG&A and currency hedges.

Now let's discuss a new key non-financial metric. Since going public in late 2004, the Company has disclosed new and total sales leaders as a key metric for our business. As Des alluded to earlier, and which we discussed at our December Analyst meeting, in countries where we have experienced a shift towards daily consumption, we believe a more relevant metric is one that reflects sales leader activity or engagement. As such, we have begun to introduce a new metric called active average sales leaders, which reflects the monthly average of sales leaders who order during the quarter.

For the fourth quarter of this year, let me summarize our regions using this new metric. Asia Pacific, plus 19%; North America, plus 11%; South and Central America, plus 6%; EMEA, plus 1%; Mexico, plus 2%; China, down 5% versus the same period in 2008; and for the overall Company, in the fourth quarter we were up 7% versus the prior-year period.

Turning to full-year results, our Company produced cash flow from operations of \$285.1 million, returned cash to investors of \$123.3 million; through dividends of \$48.7 million, and share repurchases of \$74.6 million. We invested \$60.2 million in capital expenditures, and paid \$10 million for certain acquired manufacturing assets during the year. Our net debt as of the end of 2009 was \$99.5 million, reflecting an improvement of \$101.3 million compared to the prior period year end. As a result of this strong performance in 2009, we remain conservatively capitalized at 0.7 times debt to EBITDA.

Now let's review our guidance. For the full year, we are maintaining our previous guidance for volume growth at 5% to 6% above our record 2009 performance. Note that although the percentage increase remains the same, it does reflect an increase in absolute volume compared with our previous guidance, since our 2009 results exceeded our expectations. From a net sales perspective, we have revised our guidance to reflect the impact of Venezuela being treated as hyper-inflationary. While our new net sales guidance is for growth of 8.5% to 9.5%, if Venezuela were restated at the 2009 official rate, net sales guidance would have remained at 11% to 13% growth for the year.

We expect our effective tax rate to be in the 30% to 31% range for the full year. In terms of EPS, we are raising our guidance range to \$3.58 to \$3.70, a 9% to 13% increase over 2009 results, which reflects an increase from our previously-announced guidance. Additionally, if we adjust 2009 Venezuela results to the parallel rate for an apples-to-apples comparison, the 2010 guidance represents a 16% to 20% EPS increase over 2009. This increase in guidance is a result of an increase in volume expectations, partially offset by a stronger dollar. It is important to note that our euro exposure is 70% hedged for the year, at a rate of \$1.45, so we are not as exposed to the dollar/euro exchange rate as we have been in the past.

Moving to capital requirements. We continue to anticipate capital spending for 2010 to be in the range of \$65 million to \$75 million, which includes capital to improve and expand our new US manufacturing facility, investments in technology to improve the distributor experience, and also the capital required to open up six new countries over the course of the year.

A key assumption in our guidance for 2010 is how we are treating Venezuela. I'm sure the accounting for Venezuela is confusing to many of you, especially given the number of different approaches taken by companies within our sector. To keep it simple, there are two primary components to consider -- the ongoing operational component, and the one-time component associated with the implementation of hyper-inflationary accounting. With respect to our ongoing results from Venezuela, our guidance assumes applying the parallel exchange rate to our operating results. We believe this is the most conservative approach we could take to ensure future cash balances reported on our balance sheet represents what we believe is the worst-case scenario with respect to repatriation, not the best case.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

As we communicated last quarter, the move to hyper-inflationary accounting will not have a material impact on our previously-announced 2010 EPS guidance as it relates to ongoing results, since our prior guidance assumed regular periodic remittance of US dollars obtained through the parallel market throughout 2010. However, the accounting treatment for hyper-inflationary will change the P&L geography of how items are reported. While EPS guidance will not change, net sales growth will be negatively impacted in 2010 by approximately 250 basis points, as net sales will now be re-measured at the parallel rate. This impact is reflected in the net sales guidance of 8.5% to 9.5% growth provided in yesterday's press release.

With respect to the one-time items resulting from the implementation of hyper-inflationary accounting, there are two pieces; both have been excluded from our guidance. The first is a one-time re-measurement of monetary assets and liabilities as of January 1, 2010. And the second is the one-time rollout of certain non-monetary assets at historical cost, primarily inventory. We expect the inventory turn will be substantially complete by the end of the first quarter. The total one-time impact for these two items combined will be approximately \$25 million to \$30 million on a pre-tax basis.

As previously disclosed, the Company converted approximately VEB105 million to US dollars in the fourth quarter. The economic losses in relation to this exchange are reflected partially in the fourth quarter of 2009 results, which we have called out. The remaining portion will be included in the 2010 one-time charge previously mentioned.

I would like to add one additional point of clarity, given the differing approaches companies have taken with respect to Venezuela. Some companies have started translating their financial statements at the parallel rate in the fourth quarter of 2009, prior to the country being deemed hyper-inflationary. This basically allows them to book the impact of the new translation rate to equity as opposed to the P&L. We do not believe this was an appropriate approach for Herbalife, given the facts and circumstances of our Company. To be conservative, we proactively contacted the SEC and discussed our proposed accounting treatment for Venezuela. The SEC concluded that, given the facts and circumstances of our Company, they have no objections to our accounting approach.

Moving to the first quarter of 2010, our guidance reflects the momentum that we have been experiencing. We expect net sales to increase 12.5% to 13.5% compared to 2009, on volume-point growth of 3% to 4%. As Michael alluded to in his opening remarks, volume results compared to prior year are influenced by a nonrecurring Taiwan government coupon promotion which occurred in Q1 2009, and which we have called out last year. We believe this promotion was responsible for an additional 12 million to 15 million volume points. Excluding the impact of this one-time volume-point benefit to last year's results, 2010 Q1 volume point growth would be in the 5% to 6% range compared to the prior year. We expect our effective tax rate to be in the 30% to 31% range, and therefore our guidance for first quarter EPS is in the \$0.77 to \$0.80 range, a 13% to 17% increase from 2009.

This concludes our prepared remarks. We will now open the call for your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

The first question will come from Doug Lane of Jefferies & Company.

### Doug Lane - Jefferies & Company - Analyst

Hi, good morning, everybody -- or afternoon, Des.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Unidentified**

Yeah .

**Doug Lane** - *Jefferies & Company - Analyst*

Yes on some of the stronger regions, 56%, I don't know what you are modeling internally, but it was more than we were looking for here. How much of that upside came from opening Vietnam versus upside organically in other markets?

**Unidentified**

I'll start and then I'll pass it to Des. Very little came from opening markets -- than we have in the past to avoid the pop and drop, so I want to make that point known, and I'll pass it to Des for more color -- to go deeper on the results in that region.

**Desmond Walsh** - *Herbalife Ltd. - President*

Yeah, hi, everyone. John, that is exactly right. Obviously Vietnam a minimal contribution. The bulk of the growth came from two major markets Korea and Taiwan, and in both cases we're seeing the continued adoption of the Club model, and also although to a lesser extent, we're seeing that growth happen -- Korea and Taiwan the primary contributors to the growth in Q1.

**Doug Lane** - *Jefferies & Company - Analyst*

Am I right to assume they feed internal forecasts, or were you looking for that kind of number?

**Unidentified**

We obviously saw tremendous momentum, but I think it was even stronger than expected, but based on what we have seen earlier in the year, we have seen tremendous distributor engagement.

**Doug Lane** - *Jefferies & Company - Analyst*

And same with the southern and south and central America. Tremendous upside to what I was looking for. I guess you called out Brazil, and their migration to the daily consumption. Was that really the lion's share -- outlook?

**Unidentified**

You know, Brazil certainly is the driving force behind the growth in South America, and this is something we have highlighted for two or three years the actual conversion to -- you know, to daily consumption. And everything we see just tells us that that is going to continue. We're seeing again, adoption of daily consumption promotes strong, stable growth, and interest increasing in this critical method of active sales leaders, so, again, very much what we anticipated.

**Unidentified**

If I could just add one more thing. We just came from Ecuador, a #4r09 of us were there. We have 15,000 distributors there, we have never seen such an attendance out of our South America distributors. It's amazing to see the momentum in this business.

Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

A united unified leadership which is fantastic right now to see that taking place. We had a lot of problem in Venezuela a last year, and it really didn't distract them as much as we thought it would. As Des said, Brazil growing, the success travels around the rest of the Latin America marketplace, the leadership is engaged, and they see the examples of people building consumption working with knew distributors, and it's really highly, you know, enthusiastic, is the word, I guess -- it's visionary for us to see, because we know this starts to travel around the rest of the world.

---

**Doug Lane** - *Jefferies & Company - Analyst*

Okay. And am I right to assume that the south and central America region came in better than perhaps originally expected?

---

**Unidentified**

Well, there was broad strength in all of our markets better than we had expected. Okay? I think that was the comments you heard in the opening remarks from Des.

---

**Doug Lane** - *Jefferies & Company - Analyst*

Okay.

---

**Unidentified**

Okay. Next --

---

**Doug Lane** - *Jefferies & Company - Analyst*

That's fine. And just lastly on, you know, the free cash flow, do you have some sort of estimate of what kind of repurchase -- stock repurchase total you think is on tap for 2010?

---

**Unidentified**

You know, --

---

**Unidentified**

In the price doesn't go up, it will be a lot more.

---

**Unidentified**

We obviously -- I mean, you know our approach with excess cash, right? And we do return that to shareholders one way or another. We haven't projected anything different beyond what we completed -- when we guided 2010, but we have about, you know, \$160 million available on our credit facility, and if the buying opportunity is right for us, we will continue to buy back stock.

---

**Doug Lane** - *Jefferies & Company - Analyst*

Okay. Thanks, guys.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Unidentified**

Thanks, Doug.

**Operator**

The next question will come from Chris Ferrara of Banc of America/Merrill Lynch.

**Chris Ferrara - BofA Merrill Lynch - Analyst**

Hey, guys, I think you referenced successful promotions as having -- and if I did, can you talk a little bit about what those promos were, and where they were?

**Unidentified**

Yeah, I'll start and then I'll pass it to Des. We ran a vacation promotion at the -- vague ways promotion for four out of the six regions. It's -- they were a long promotion. It starts in December, but it was designed to drive consistent volume. It was designed to drive activity, and it was -- you know, it gave us some really good momentum at the end of the month, and kind of leaped us over in to 2010 in a positive way.

**Unidentified**

Yeah, so what is interesting, Chris, is just as our business is evolving and driven by daily consumption, so our promotion strategy, which we develop with a lot of distributor input is also evolving. So traditionally in many years we have actually had relatively high volume promotions in order to achieve a specific vacation. But this year what we have transitioned to is a different type of promotion that fundamentally are consistency promotions. Instead of having to do 100,000 volume points to qualify for a vacation, what is happening now in most regions is that you have to do, say, 12 months of 2500 volume points a month or 3,000. There are various levels. So basically it's the consistency promotion rather than a high-volume promotion. And what we decided to do again in conjunction with our leadership is rather than kick off those promotions in January, we decided to kick them off in December for two reasons. December is a time traditionally where our distributors maybe relax a little, and we wanted to keep them engaged so over December and the holidays that they would be actively engaged in the because, and set up with momentum going in to 2010. So certainly that -- the launch of the 2010 promotions in several of the regions was one of the factors that contributed to that strong finish to the year.

**Chris Ferrara - BofA Merrill Lynch - Analyst**

Do you have a sense for what it contributed? What would quantify it?

**Unidentified**

Yeah, this is John. It was responsible for we think 12 million volume points in the month, more than what we had projected. That's the reason why in our analyst day we had just reiterated guidance. We weren't expecting such a lift in promotion.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Chris Ferrara** - BofA Merrill Lynch - Analyst

Got it. Got it. And then, John, I guess the FX impact that you have seen hit gross margin, and I know part of it this quarter was Venezuela, the inventory transaction drive, but as you look at currency going forward, would you expect currency to be positive to gross margin? You know, as you move through 2010? And I guess which quarter would you feel this swing? I guess it might be the first quarter? Is that right?

**Unidentified**

I think the confusing part of currency impact cost of sales is that there's a three-month lag before you see it on the P&L. So it might be a surprise to see a drag on gross margin this quarter versus the fourth quarter last year, because the currency even though the dollar, you know, was weaker in the fourth quarter, because you are really comparing Q3 currency rates of '09 versus Q3 currency rates of '08. I know that is kind of wordy, but there is always a three-month lag. So the currency impact for purchases in Q4 will hit in Q1. And the currency impact for Q1 will hit in Q2. I will tell you we are substantially hedged for the remainder of the year on the euro, which is the biggest component to our purchases. So we have 70% hedged at \$1.45. So I don't see significant currency exposure going forward. So you'll see a little bit of pickup in gross margin in Q1, beyond that it depends on what happens the dollar the rest of the year.

**Chris Ferrara** - BofA Merrill Lynch - Analyst

That's helpful. One last one, do you have a number -- for the FX impact to gross margin for the full year 2009?

**Unidentified**

I can call you back with that. I don't have it in front of me.

**Chris Ferrara** - BofA Merrill Lynch - Analyst

Okay. Okay. Thanks, guys.

**Operator**

(Operator Instructions)

We'll pause for just a moment.

**Unidentified**

Is there nobody else in the queue?

**Operator**

You do have a question from Bret Jordan of Avondale Partners.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Bret Jordan** - Avondale Partners - Analyst

Good morning, John on the FX hedging could you give us a little color out of the euro where you are and what the strategy is for the year?

**Unidentified**

All right. So we have -- there's two strategies. There's a strategy for the euro, so we can effectively hedge out beyond the current quarter for that currency, and as I said we're 70% hedged on that. The next big currency exposure we have is the peso, and we're 90% hedged against the peso for Q1, but we're not hedged beyond Q1 for any currency other than the euro. So generally, when we give guidance for the current quarter, we're substantially hedged for that current quarter. When we give it for the year, we're now going to be -- majority hedged on the euro but not hedged on any other currency?

**Bret Jordan** - Avondale Partners - Analyst

So you are primarily hedged for this quarter and you will continue to roll that forward?

**Unidentified**

Yes.

**Bret Jordan** - Avondale Partners - Analyst

Okay.

**Unidentified**

Are there any other questions?

**Operator**

The next caller will be from Tim Ramey of D.A. Davidson.

**Tim Ramey** - D.A. Davidson & Co. - Analyst

Good morning congrats on the fourth quarter it at least for today changed my life.

**Unidentified**

Hey, it's going to change your whole life, Tim.

**Tim Ramey** - D.A. Davidson & Co. - Analyst

All right. And your enthusiasm, Michael always changes our lives. Des, I think you mentioned at some point that, you know, a substantial portion of the business is on the daily consumption model. Can you kind of taken the exercise to try to figure out where you are as a company versus daily consumption?



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Unidentified**

Let me jump in and -- we have been pretty consistent with the message that about 30% of our business right now is being done through daily consumption. So there is still a lot of runway left.

**Tim Ramey - D.A. Davidson & Co. - Analyst**

Good. Okay. And, you know, I had written down a question also for Des, you know, could the 1Q be hurt by the 4 q promotions, but your answer to a previous question sounds like there's a lot of runway there. Should we then kind of the about it as, you know, a bit of a drag on the 4Q as you lap that -- those extra volume points, or what is the promotion structure really look like? Is it truly an annual kind of thing?

**Unidentified**

Yeah. So here is the key -- the key part about a consistency promotion, Tim, is that it obviously rewards consistent behavior, and this was one of the reasons we were so comfortable with launching this. We wanted people to be engaged early, and then for them to maintain that engagement. So the challenge for the high volume promotion is that if you require whatever -- very high volume in a particular month, and if you don't achieve it, then obviously it is very difficult to get back in the game. Obviously with a consistent promotion, you have a lot of people engaged earlier, so the perception is this is an easy one to maintain each month as it goes, because the numbers aren't too high. So that's why we believe that we're going to see this create huge engagement at the outset and that will continue on a month-to-month basis, and not have a situation where you have got a disproportion at it spike in a particular month, because by definition this is about consistency from one month to another.

**Unidentified**

Let me add one thing too, I think this will be a promotion you see us redo next year. So it's not going to be a one off.

**Unidentified**

Right. And just a comment for Michael. If we had to criticize you on one thing maybe it's a bit of -- on the share repurchaser, you know, we could have gotten a little more aggressive earlier on that. I don't necessarily view it as a view chew to pay down \$100 million of debt with a company with the amazing cash flow that you have, so I could encourage you have to be aggressive there.

**Unidentified**

You shot the question at me, and of course I'll turn it over to John, but we have some investments we have to make out there the year. We have different events that are large expenses, we bought a new manufacturer, we have -- you know, ample cash flow now. Our timing may improve, you know, due in retrospect, I wish we had purchased more shares.

**Unidentified**

Let me add to that, so Q1 -- Q1 is not the easier quarter generally for us to buy back stock we have a lot of cash flows in Q1 because we have marquee dividend and employee bonus that we pay. As far as paying down debt, it's a revolving credit facility it's fundable with cash. On our backs as cash or paying down debt, it is still available us to.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**Tim Ramey** - D.A. Davidson & Co. - Analyst

My point is I would rather see it go in to the revolver in the 1Q.

**Unidentified**

We -- you know, we buy back -- I -- I think -- we have a pretty shareholder-friendly buyback program. I mean if you want to cite size we didn't buy enough early last year, I will tell you that's the cash position we were in early last year.

**Tim Ramey** - D.A. Davidson & Co. - Analyst

Fair enough, thank you.

**Operator**

There are no further questions at this time. I would like to turn the come back over to Michael Johnson for any closing remarks.

**Michael Johnson** - Herbalife Ltd. - Chairman and CEO

Thank you, everybody.

And, you know, it's very interesting as you look at the newspapers, listen to the news, and go around our country and frankly around the world the two biggest issues are jobs and healthcare. They are the number 1 and number 2 issue in the world. Of course in the United States and, you know, we have a conference taking place here with Schwarzenegger and Bill Clinton who has just come out of the hospital and we hope he is well, on obesity. And here is a country Herbalife that is situated right in the middle. We are providing people with greater incomes, to build partial or long-time income, 64% of our business right now is focused on weight management and getting people in to a healthier, more active lifestyle. Steph who is sitting here with us is form lating these products, and our team of manufacturers who are building the entry grace of sourcing and manufacture of these products -- what we said last year that our goal for 2009 was to beat last year's top line, and despite many of these global challenges that are outside of our control, our distributors and employees were able to do just that and they are doing it at this intersection. Congratulations you guys and thank you. I know you are listening in. We can't control the FX fluctuation. We're not going to wrotery about that. We'll do the best we can on the hedging. We'll keep posting numbers as we said before. This is a company that has done amazing things. We have more than doubled in sales and tripled in profits over the last five years, and we're excited -- three weeks from now. We're very, very bullish, and you can -- and you have heard this from me many times, and we have not failed to deliver to you every single time. We're bullish about the future of this company, we see it, we feel it, we -- Taiwans and here in the Latin market here in the US. And building a family opportunity around the opportunity of health and wealth in Herbalife. So I want to thank you for tuning in. We look forward to seeing you guys soon. Hopefully some of you are joining us down at our Orlando event, where we're going to be handing out a lot of money to top distributors. Thanks for your participation.

**Operator**

Ladies and gentlemen, thank you for your participation in today's Herbalife earnings conference call. You may now disconnect.



Feb. 24, 2010 / 4:00PM, HLF - Q4 2009 Herbalife Ltd. Earnings Conference Call

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.