

FINAL TRANSCRIPT

Thomson StreetEventsSM

HLF - Herbalife Ltd. at Janney Montgomery Scott `Investing In The New Normal` Conference

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John San Marco
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PRESENTATION

John San Marco - *Janney Montgomery Scott - Analyst*

Good afternoon everyone. I'm John San Marco, the Household & Personal Care analyst at Janney. I'm very pleased to introduce our next presenters, Herbalife. Herbalife is one of the world's largest direct selling companies. They've got a huge nutrition portfolio as well as some other consumer products they'll tell us about. And they're certainly one of the fastest-growing companies in both spaces. With us from Herbalife are Chief Financial Officer, John DeSimone, and the head of Investor Relations, Amy Greene.

There are a number of exciting things going on at the Company including modifications to the way its distributors are incented and the way the Company teaches its distributors to sell its product. With that, John and Amy have kindly offered to stick strictly to a fireside chat format. So we'll just jump straight into Q&A. I've got a number of questions, unless someone wants to beat me to it.

Maybe you guys could just start off talking out with what I sort of view as the biggest part of the story today and that's why you've made this decision to switch to the-- what a nutrition club format is, for those who may not know it? Why you made the decision to start pushing that model? And what the big benefits and challenges are? Okay.

John DeSimone - *Herbalife Ltd. - CFO*

Does everybody have a presentation, so I can reference pages on the presentation? Clubs are-- it's really a distributors' method of operating. It's how our distributors go to market. And about a third of our business, a little less than a third, about 30% of our business right now we estimate being done through the club model. But the club model is what's driving a majority of our growth.

And there's a few benefits to clubs. But the first benefit and the key benefit is it offers consumers the ability to buy product on a daily basis, at a daily price point.

All right, and I'm going to jump around based on the question. So I'm going to turn to page-- if you can turn to page 7, I like this slide. It just gives you-- doesn't tell you how clubs operate but it gives you a key benefit of clubs, which is-- and coffee is the example on this slide. Coffee at \$2.00 a day is a pretty expensive proposition. And if it was at-- if you had to buy that product at the beginning of each month and prepay for 60 cups-- I mean for 30 cups pay \$60, far fewer people could afford to do it. Same thing for Herbalife product and any other direct seller. They're always-- we're always selling a monthly supply of product where consumers had to pay \$100 for a program or \$50 for a month's worth of meal replacement shakes, whatever it may be. The new model offers consumers the ability just to come in and pay \$3 for what they need that day. So, just like a cup of coffee, a distributor would come to a club. For \$3 they would get a meal replacement shake. They would-- their cup of tea, which is a caffeine drink and they would get an aloe drink, which is digestive. So the benefit of that daily price point is it reaches far more



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consumers. It's-- the addressable population is exponentially increased from having a daily-- offering a daily price point than just that monthly price point, which the traditional model has offered.

There's other benefits to clubs too, but that is the key benefit, which is far more people can afford to buy the product now. And it's-- additionally it's sold as a meal replacement shake. So we look at the club's competitors as fast food. The objective of a club is to steal one meal a day from fast food. The benefit of that is the clubs are looking for consumers to trade down economically to just trade off dollars that they were spending somewhere else for food and buy a Herbalife meal basically as opposed to traditional supplements which are a little more dependent on disposable income. So it's a tradeoff. So we're seeing that benefit too.

We're also seeing a forced-- call it a forced discipline of the benefit of clubs, our distributors basically have a job that helps them be successful. So in traditional direct selling, a new distributor could be very motivated the day they sign up. But what do they do 30 days later? They have to be just as self motivated, get up, call ten friends, whatever it may be. In the club model, they have an operation they have to go manage and people come into that operation. They have to service those customers. So that's a forced discipline. It helps make them successful and customers come to the clubs instead of distributor going to customers. So again, traditional direct selling, distributors have to call up their customers once a month, schedule a party or however they go to market, it's generally the distributor contacting the customer. In this case, once you make contact and the customer knows where the club is, the customers now come to the distributors.

The benefits of the model are it's more sticky, penetrates far deeper into the marketplace, and we have seen in markets that have adopted clubs 3X to 5X growth rate just because it goes deeper in the marketplace where traditional direct selling skims the surface of the market. So, I don't know--

I'm going to start with slide 8 and then go to slide 9. So slide 8, there are 3 core products for clubs. Okay, they are-- let's say the meal replacement shake, the aloe drink and the teas. They come in a lot of flavors. But those 3 products, you can see in that first box in 2003 represented 37% of the Company's volume. In 2009, it represented 51% of the volume. So it's grown-- those 3 core products have grown 152% while the Company's grown 84% just purely on a volume basis. And that shows you where the-- that the growth is being driven from going deeper into the markets we're in.

And it's-- you'll see on the next slide if you can turn to the next slide, to put a little bit of metrics behind what the opportunity is, this slide-- it's got a lot of numbers on the slide, but the blue bars are the penetration rates. And think of penetration rates--we call them volume points here, but basically US dollars worth of retail sales per consumer in the market for a population. So in Mexico, for example, in 2003, Mexico is where clubs started. The penetration rate was 1.2 million-- 1.2 volume points per capita. In 2009, that was up to 4.4. In 2006, you can see on the bottom of that chart, there's an inflection point where clubs really started to take hold in the market. It started in Mexico. It grew to the Latino community in the US because there's close ties to Mexico. And the consumption-- volume points per capita consumption rate went from 2.3 volume points to 10.8. Okay and that's while the non-Latino US market is still at 1 and it's just starting clubs; Taiwan, large clubs.

And clubs evolve in each market. Okay, clubs were a home club. This was done out of people's homes in Mexico. It's now mostly done around the world in small commercial locations that are shared by a number of distributors that do the club together. And Taiwan started that. So Taiwan has gone almost 3X growth. Korea, which started a year later with clubs, has had 2.5X growth and still tremendous growth in the current quarters, last couple quarters. Brazil started even later. It's had 2X growth and still growing. And then India, which is isn't on the chart, India-- there's a lot of people. So the per capita consumption doesn't break the axis but we've been in India for ten years. Outside of the first two years, it's been flat. And then for the last 5 quarters, we've had between 80% and 110% growth year over year, driven by the fact that consumers can now buy the product at a daily price point, all right, which is very much how in Asia people are accustomed-- in a lot of Asian markets, are accustomed to buying product. I mean in some markets they buy single-serving cigarettes. And so the population in India that can afford to participate in the product offering at a daily price point is significantly higher than those consumers who can afford to participate in the product offering at a monthly price point.



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So this gives you some perspective as to what clubs have done for certain markets in the last six years. And when you see the total company penetration rate, in 2009, we were-- it says 0.6. It's 0.56. It rounds to 0.6. So there's still a big opportunity by spreading this model around the world.

Amy Greene - Herbalife Ltd. - IR

[Aspirationally], our goal as we've said before is to triple the size of the Company over the next ten years. And the principal means of doing that will be to have-- will be to continue to see clubs grow deeper the markets they're in and in additional markets around the world.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So it's early. So we're seeing signs of growth in the fourth quarter in the general market from clubs. And we were cautiously optimistic on our fourth quarter conference call saying we think the US is-- general market is ready for growth. And then we had great growth in the first quarter. So, I think sustained growth, which we believe it will be sustained growth, will help other markets realize that clubs can work in their markets. So there are some markets that are just resistant to this model, because it's a change. And distributors, in general, this is their livelihood. This is their business. They don't change easily. And in certain markets, the markets that we've been in for a long time, where the distributors are very comfortable with a different method, which is more finding that monthly consumer, finding a few people buy a lot instead of a lot of people buy a little. Those distributors haven't yet adopted clubs.

But the US general market, which is the oldest market in the company, it's 30 years old, if that market starts to have success then distributors in other markets lose that excuse that clubs can't work for them. And the thought is hopefully, it'll help engage those other markets to start clubs. Now if it doesn't spread that way, we think it'll spread, for example, in Western Europe through the immigrant population. So there's a huge Indian population in the UK, in France. And we're having great success in India. So somehow there will be a connection that way in those immigrant populations, there'll be clubs. And that'll help spread. But it's-- Europe is a little further away. They have yet to start clubs. Whereas, about 73 markets, 40 or so have started clubs.

More questions, anybody--?

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So you can see-- there's a slide that's page 3 that looks at volume by region. North America is essentially the US. Okay, there is Canada, which is a small business for us and a little bit in the Caribbean, which is a small business for us. So the US represents a little under 25% of our sales. Cause Canada may be 3% of that. So, US is around 22% of our sales. US is still having great growth. But there's great opportunities elsewhere. In Asia Pacific, we're very excited about this new club model works really well in countries where there's huge populations, but most of the people in those populations can't afford to buy at the monthly price point. So I suspect that Asia will outpace growth in some of the other markets. We think there's big opportunity in the US, in Brazil. Eastern Europe, there's opportunity and Asia Pacific. And then some countries that we're not in, there's still opportunities to open new countries. The countries we're in represent 75% of the world's population. There's still a chunk of the population



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we don't reach that actually could be good markets for us, Egypt, Middle East. We might have to tweak the model a little to get it to work in those regions. But there is opportunity to spread geographically beyond where-- what our footprint is today.

Amy Greene - Herbalife Ltd. - IR

And one of the interesting things I think about the US is when we talk about the US, we tend to bifurcate the market to talk to Spanish-speaking and all other, essentially, because the Spanish-speaking portion of the US market first adopted clubs as they came out after seeing the Mexican model. And so the growth characteristics were very different between the two markets.

Five years ago, the market was predominantly non-Spanish speaking. It was 70/30. And now has almost inverted because of what the growth that daily consumption has provided behind the Spanish-speaking market. So there's a lot of opportunity in the non-Spanish speaking side. It's just that the Spanish-speaking has so outpaced it over the last four to five years.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So from a performance standpoint, pure local currency performance it has. From a translation standpoint and transaction standpoint, there's long term. Some, in fact, short term we're pretty hedged, especially against the Euro. We had very little-- we have--

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

65% of our European product is made in Euros, so it's made in Europe. So we've got a decent natural hedge in Euros. And the remaining exposure, we've hedged 85% of that exposure out through the end of the year. So there is no impact or very little impact versus our guidance from the Euro. And the Euro is our most exposed currency. 30% of our currency exposure is in Euros. Another 30% is in pesos. That's had some movement, but it's been volatile. It's gone from the low 12's to the low 13's. This is in the last month back to the low 12's, back 12.9. So it's-- it'll fluctuate. We're hedged for the current quarter against the peso and against most of our major currencies. But we don't hedge out beyond the current quarter for anything but the Euro, because we do not get hedge accounting for anything but the Euro. So if you were to create-- you were to put a hedge in place, you'd have to mark to market that hedge instrument every quarter even though the offset may be three quarters from now. So you take a lot-- there's a lot-- put a lot of volatility into your P&L. So we don't do that.

So, that's the short-term answer. In the medium term, we'll start to get hedge accounting treatment on the portion of our peso expense at the end of this year, so we will look to create longer-term hedges for the peso that are also take volatility out of our currency exposure. And then longer term is to create more natural hedges. So we have our manufacturing strategy, which we haven't talked about yet. But we'll look to regionalize manufacturing both-- there's a lot of benefits to that, but the natural hedge it creates is one benefit. Or source product from Mexico, for example, if we decide to manufacture in Mexico, that's a natural hedge. But Mexico grows a lot of aloe and we could buy more raw materials in Mexico, peso-denominated transactions that create a natural hedge without even manufacturing there. So we will look to create more natural hedges over the next few years.



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Unidentified Audience Member

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John DeSimone - Herbalife Ltd. - CFO

Well for those that don't know, so I'll-- if you could turn to page 13 be just a visual that will help. Up until the third quarter of last year, we made very little of our own product. The only manufacturing that we had was in China and it was only for product consumed in China. So we didn't export out. So, everything was made at third-party co-packers. We had a made a decision-- actually a couple years ago that we wanted to vertically integrate for a lot of reasons, but the first priority was call it protection or risk avoidance. We wanted to be in control of our product and what we call seed to feed. It's-- that'll enhance our credibility with regulators. It creates a great marketing advantage and there's also a financial return. So the way we've approached it or as we started with self manufacturing. So we purchased a manufacturing operation in the third quarter that was already making some product for us. And we're adding and-- this whole process is low capital investment. I mean so we purchased the facility or the operation for \$10 million. We'll put another \$10 million to \$15 million into it. So for under \$25 million, we'll have a factory in the US that can produce 40% of our worldwide needs. So that puts in perspective how low capital this is.

Importantly, we've made some key hires that will help us along the way. So we hired a gentleman named Gerry Holly, with a G, if you want to look it up. But he was-- he is the foremost manufacturing expert in this category. And we've hired another gentleman called Dr. Bill Frankos who until last month was head of Dietary Supplements for the FDA for the last ten years. So he now works with Herbalife.

Push it back to ingredient sourcing, we wanted all ingredients not only in our manufacturing facility but in any Herbalife product to come from our sourcing company. So we control the ingredients. So we started ingredient sourcing company. We hired a gentleman named Jim [Barton] from Pfizer. He ran worldwide strategic sourcing for Pfizer. He now runs our ingredient sourcing.

And then on the extraction side, extraction is taking the crop and extracting the ingredient that you need. We're in the process of working on an extraction company so that we'll be in control of the extraction process to and how the product is getting extracted and how you fingerprint the raw materials. And so the whole process, we'll buy the crops. We won't own the fields, we'll buy the crops. But from seed to feed, so from the point we buy the crops to the distributors, we'll be in control of the product. We'll have complete traceability, which gives us a huge competitive advantage with regulators and in marketing.

And in addition, there's a financial return. This whole-- we look at CapEx to run around 3% of net sales. Inclusive in that 3% is the capital for this project. And we look for 100 to 200 basis point improvement in cost of goods sold as a result of this project.

And where we are today? I'm sorry. Let me just-- I didn't finish the question. I just-- you wanted to know where we are today. So we purchased the facility in the third quarter of last year. We've moved very little product in yet. We still have a bunch of equipment on order. Come the third quarter this-- probably end of the third quarter this year is when we'll move a significant portion of our production into that facility. And then after we get through the phase-- and a lot of other countries will be phased in. There's licensing lead times. And once we get through this process successfully, we'll look to regionalize manufacturing.

Yes?

Unidentified Audience Member

(inaudible-microphone inaccessible)



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John DeSimone - Herbalife Ltd. - CFO

I mean Q4 was unusual. I mean people sat on their wallets. People were nervous. People just weren't buying product or inventory. Nobody-- there was so much uncertainty in the climate that it just really shut down a lot of people.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So we have a tremendous amount of statistics for our distributors. We have far less information on the consumer side. We're working on the consumer side now. But that visibility doesn't exist naturally because it's done through distributors, not tied into one system. There's no IRI data. There's no retail link data. So you don't have that-- quite that visibility. So we're working on capturing more demographic information on the consumer and more-- to how sticky they are. But I mean I can give you a lot of anecdotal information, but it's only anecdotal. We don't have a ton of statistics yet on the stickiness of-- we know the clubs are very sticky. So we assume the consumers are very sticky. Cause once a club opens up, they don't close too often. And during the start-up phase when they open, when they're trying to figure it out, there's a failure rate. But the failure rate once they-- once a model has been figured out is very low.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So the economic of the sale to somebody-- our selling product to a distributor who's doing clubs is the exact same as us selling product to a distributor going to market a different way. We sell the same product in the same canister. So there's no economic difference for us in that transaction. What we find over the long term is the penetration and sustainability of a club is much greater than the traditional model. So the stickiness of it-- so our retention rates are a lot higher for people doing clubs than for the traditional direct selling. So it's economically over the long period, much better model for us even though the transaction itself is no different.

For the distributor, it's a slower, more stable build. And that's why it takes time to convince distributors this is the right way to go. They're used to-- historically it's finding a few people to do a lot of volume. And if you lose a lot of people, you find more. That model grows quickly but isn't sustainable. Whereas this model grows slowly, but it's very sustainable. So it really took a lot of distributors having successful before it really started to spread. So their economics are slightly different. They've got a little bit of working capital they have to put out. They have to rent a facility but it's usually a down market commercial establishment and they share it with four or five distributors. So it's not meaningful. Maybe it's \$6,000 to open up a club. If you've got four or five distributors, it's affordable. But the selling of the product itself for a distributor is no less profitable selling it daily than it is monthly. It's the same from a retail standpoint, same price per serving. It's just they can find more people to sell it to.

And for us and for the distributors, but for us it's-- that model, that club model has more visibility, more predictability, more consistency to it than the traditional direct selling.

Yes?



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Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Well we find we can-- so our biggest ingredient is soy. All right, and then we've got a lot-- there's no other meaningful ingredient. There's a lot of other ingredients we have. But soy is the meaningful one because it's in the-- it's the number one ingredient for the product. It makes up 30% of our sales. And we're hedged on soy. Generally, we've been able to-- right, so we've been able to pass on any price increase, any cost increase through a price increase. We try to match-- take price increases commensurate with inflation. And so far, on a constant currency basis, if you take currency out, you can see it on our website, our gross margins have slightly improved over the last couple of years. So, we've been able to cover it.

More? Yes?

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So, so you're asking for-- our products aren't made specifically for a demographic group. But they are a weight-management product. And it's sold as a meal replacement not as a diet. So you don't see the seasonality with us that you see with the diet company. And our products are mostly functional foods. So, I know we're classified as a nutritional supplement company. But less than 25% of our business is in what you would traditionally think of as supplements. And most of the other products are functional foods.

So, distributors go to market with the product first as a healthy meal. And if you need to lose weight, it doesn't matter what age you are. That is where it works best because if it-- weight loss has a testimonial to it. You take the product that works. You-- for results not a product. It's the easiest consumer to find to take the product. But if you don't have a weight problem, the distributors go to market with a healthy meal concept, a healthy breakfast. So the concept is that they'll ask you what you had for breakfast and no matter what you say, they'll try to get you to switch to Herbalife and they'll give you three days of breakfast, come to the club, that kind of thing. So it's not specifically targeting a demographic group.

In Vietnam, which we've opened, we're having great success in Vietnam. It's being sold as a protein enhancement not as a weight loss, because they don't need weight loss. And we find that the consumer in Vietnam is very young, very aggressive. And the model's working very well in Vietnam, even though it's different than how it's working in Taiwan, and different than how it's working in Korea. So it's different by market. So that's somewhat-- our products we call it weight management but it can be sold either way. It's a healthy meal whether you need to gain weight, maintain weight, or lose weight, but lose weight works best because there's a testimonial aspect to it.

Amy Greene - Herbalife Ltd. - IR

And that's one of the pluses to a lot of consumer questions that we were that you all asked. We don't have the finality of the diet. So you don't have the customer churn or turnover that'll lose ten pounds or achieve your weight goal type of program has. A lot of diet companies have that ten to twelve weight customer cycle, which makes it much more challenging. You have to try and re-win that customer the next time they want to lose weight. By being-- by the distributors going to market as a healthy active lifestyle, that way if you lose weight by pursuing a healthy active lifestyle, great. If not, then you have-- we would suggest one shake a day as a healthier meal alternative period.



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John DeSimone - Herbalife Ltd. - CFO

And that's one of the, what I think is, powerful aspect of our business model in direct selling is that we've got entrepreneurs out there that are positioning the product appropriate for their customers. So, it's a push model and they're very good at it. That's the benefit of-- that's the strength of the model. So if their marketplace is young, they'll position it as a healthy breakfast for them. If they're overweight, it's a weight loss. And it can be positioned both.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Our product line is, from a new standpoint, probably not that fresh. There's opportunity for us to launch more new products. From what we currently have in the product line today, there's been a lot of freshness put into it. So it's a much updated product from where it was five years ago. So we've gone through our portfolio of products and had a harmonization strategy that we've worked on for the last three years to modernize the product based on current size. So that has happened. That's very new. But in terms of true, what you would think of new products, there's-- it's the next phase now that we've-- the amount of work to launch a new product and reformulate, no one-- it was just about the same. So the efforts went into reformulating a lot of the old products and now they're switching over to launch new products.

So most of this growth you can see on one of the slides we had where it looked at where the growth came from, which was slide 8. You can see on slide 8 that the 3 core products that are sold in clubs, we went over this slide already, has grown at almost twice the pace as the Company. So the growth has been coming primarily from the new business model that our distributors are putting into place more than has been coming from new products. Now we're going to layer in new products.

Go ahead.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Two million. Yes, half a million sales leaders, which are the senior distributors and two million total distributors.

Amy Greene - Herbalife Ltd. - IR

And of that-- of the distributors, 1.5 million that are not yet sales leaders, we think we've, based on purchasing patterns, about half of those are buying for personal consumption and the other half are-- have some form of distribution.

Unidentified Audience Member

(inaudible-microphone inaccessible)



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John DeSimone - Herbalife Ltd. - CFO

No, it changes. People come in, go out. So we have a retention rate. We measure the sales leaders' retention rate. And the retention rate is measured anywhere between 13 and 24 months after they come in the business. And the retention rate is 43%, which we think is industry leading and it's much higher in those markets with clubs than those markets without clubs. So yes, there is always some attrition and with new people coming in. But the most important metric, which we put in the presentation, is what we call average active sales leaders, which means doesn't matter what the total is, it's how many are active? How many are buying product? I mean that's the real measure of engagement and that's the measurement that's got, from a regression standpoint, the most correlation to growth three months out is the number of active average supervisors or sales leaders. I use supervisors. We've changed the term but they're synonymous.

Yes?

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

What does a person consume?

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

At a club or are you talking about a distributor-- what we have is for distributors that we think are just consumers, just consumers but are distributors, it's about \$100 a month.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Yes, right. For those that are consumers going through the clubs we don't have, like I said, we just don't have a lot of data on that right now.

Unidentified Audience Member

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John DeSimone - Herbalife Ltd. - CFO

I think that would be less. They're buying the product at a daily basis and probably not going every day. They may go five days a week to whatever they can economically afford. But they're in the club probably because they couldn't afford at first the monthly price point.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So we don't-- from a pricing standpoint, we don't promote on price. We do have promotions that drive consistent purchasing behavior. But it's never a price promotion. Price reacts-- the way we compensate our distributors, we'd actually take a pay cut from our distributors. So we don't go to market that way. But is there an ability for us to put things in place to maybe make it easier for that repeat purchase? There is. We have very little automatic reordering through the internet and things like that. That's an effort that's going on now. But we haven't gotten to that point yet. Where some other direct sales have a majority of their business done that way, on automatic replenishment. We have very little automatic replenishment. So there is-- that is another strategy we're putting in place.

Amy Greene - Herbalife Ltd. - IR

No, no, I was just going to say, I mean if you're a distributor, you're getting a 25 and ordering a negligible amount on a monthly basis, you're getting a 25% discount to the retail price. And so that's typically why there is a-- they sign up to be a distributor to get that long-term 25% break from retail. So--

Unidentified Audience Member

(inaudible-microphone inaccessible)

Amy Greene - Herbalife Ltd. - IR

They're purchasing for themselves. Our--

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

A sales leader, who is purchasing for a business, gets a 50% discount.

Yes?

Unidentified Audience Member

(inaudible-microphone inaccessible)



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John DeSimone - Herbalife Ltd. - CFO

And a lot of other distributor statistics that we have visibility to that you investors don't. So we've got a dashboard that gives us statistics on every one of our distributors and it's close to three dozen statistics. And it's a lot of information. So it tells us ordering patterns for distributors. It gives us the statistical analysis to determine who's doing clubs, which are more predictable versus who's doing recruiting that they're bringing a lot of people in but they're not sticky. And so that gives us a lot of information into visibility. But the visibility is-- it's medium-term visibility. The long term we feel comfortable based on high-level statistics. In the medium term, we can measure the trend. Month to month, there's some variability based on meeting schedules distributors have and whether they go on vacation or things like that. But that's just a little spikiness month to month. But the trend is predictable for us.

Amy Greene - Herbalife Ltd. - IR

Okay from a (inaudible) standpoint having come from the sales side into the Company in this job, that's probably one of the most-- what I would think to be one of the most misunderstood pieces of the business is the degree to which the visibility that-- I mean John consult the dashboard and he can drill down into individual distributor's business. And we can run exception reports and see if you see a group of distributors that have an abnormal purchasing pattern over a period of time and you want to smooth that out from a forecasting standpoint, you can drill in and see why did it spike? Were they buying ahead before they went on vacation? There's a lot more that's there than I think most investors recognize.

John DeSimone - Herbalife Ltd. - CFO

We have a lot of what we call the quality measurements, quality of supervisor or sales lead, quality of distributor that looks at the activity level after they become a distributor or a sales leader. And that really tells us a lot about what model that person's doing and how successful they're going to be. So that all goes into our model. But generally we still-- we've generally beaten our guidance and we're still cautious despite having all that visibility, we take our bottoms up roll up and then we put a little cushion in, cause if the roll up is done by country and then we-- that's where our guidance comes out.

Yes? Somebody?

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Well we just did, you know that right? So we've announced a billion-dollar buyback, really at this point anyway it's projected to come from operating cash. And what happens between now and the end of 2014, that's \$200 million a year that is a use of significant portion of our excess cash. Then we have a dividend yield of 1.8%. That's-- we're comfortable in that number and to kind of bracket around that number, that's where we'll probably stay. We have enough cash projected in our forecast to be able to do both. So, what really falls out is you're not going to see us do any significant M&A in industry. M&A is really risky. We could buy a small science-based product company that has no distribution or limited distribution or a technology company that can really enhance our distributor experience. But we're not likely to buy a meaningful size company and try to integrate them into our companies. It's really a risky proposition. So, one way or the other, the excess cash has to go back to shareholders and right now we favor buyback.



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Amy Greene - Herbalife Ltd. - IR

And our debt is very favorable from a pricing standpoint, but it is not agreeable to taking on additional debt. So our debt-- it's in two tranches; half comes due in '12, half comes due in '13. So, when we look to-- when we get to where we're looking to redo that, then other things may be on the table as share repurchase is concerned. But for right now, we're kind of-- we are where we are.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So to be a distributor, you just have to buy our kit for \$49. There's no other requirement. And the price differs by market. And there are two kits. There is one with product, without, so you can buy inexpensively and become a distributor. To become a sales leader, you really have to do-- there's two ways. It's 4,000 volume points in 1 month or 5,000 volume points over 12 months. That 5,000 volume points used to be over 2 months. And that was really a barrier to entry for people, especially when the economic climate was difficult. People weren't willing to buy that much inventory. So now they can accumulate inventory over a year. And that 5,000 volume points is about \$3,000, to put in perspective out of the distributor's pocket.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

In their first year. In any 12-month period.

Amy Greene - Herbalife Ltd. - IR

Just a rolling 12.

John DeSimone - Herbalife Ltd. - CFO

Just a rolling 12. They--

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

About \$3,000. About \$300 in product a month, \$250 in product a month and they become a sales leader. What we find is people who build their business over time at a slower pace are much more successful by the time they become a sales leader than those who do it quickly and have inventory they have to try and sell and don't really know how to go to market. So that's really the reason we made the change is it's-- that productivity and activity level of sales leaders who qualified over a period of time instead of quickly were both much greater.



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Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Well there's two things they-- two ways they make money. So, there's the retail profit, which we do not measure. We could tell you what it is theoretically but we don't really know what they sell the product for. But based on MSLP, as a company that would have been about \$1.8 billion last year that they would have made at retail. And then the commissions and royalties, there's about \$800 million in total. So, the average 500,000 supervisors, so you can do the math. It a little over, what's that, \$1,500. But the retail profit is where the majority of the money is made until you build the business. And that's what the club profit is, it's retail profit.

Unidentified Audience Member

(inaudible-microphone inaccessible)

Amy Greene - Herbalife Ltd. - IR

Well, there's 30,000 home-based clubs in Mexico. There's a little over 7,000 commercial-based clubs here in the US; more than 1,000 in Taiwan; more than 1,000 in Korea. And there's--

John DeSimone - Herbalife Ltd. - CFO

600 in China.

Amy Greene - Herbalife Ltd. - IR

But those have multiple distributors, where the home-based club is one-to-one relationship where the commercial club can have anywhere from three to eight distributors in there.

John DeSimone - Herbalife Ltd. - CFO

But we estimate a third-- not third, 30% of our volume is coming from the club model right now.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Well we haven't given-- we haven't projected it out other than to say over the next 5 to 7 years, we think it'll be 70% coming from clubs. So we haven't done it by year. Last year, it was a little under 30. I don't even know if we've quantified for anybody for last year. I can tell you that five years ago in the US, it was almost nothing. And I think you might have mentioned this already, the Latino business was a third of the total US business and today that's flopped and now it's two-thirds from clubs.



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Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

No, you're not. You're paying the same.

Unidentified Audience Member

(inaudible-microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

It's the same cost per serve-- price per serving to the consumer. It's just-- it certainly, the benefit is more people can afford to do it, so you can afford to buy the monthly price point over the daily. But there are a lot of people who can only afford the daily. So that's-- and that's-- and it started in Mexico because the distributors saw that opportunity. We had a distributor who is a professor of a university who really saw the benefit of the product in his community and realized many people couldn't afford it. So he started clubs. And when it started growing and duplicating, it built on itself. So that's where clubs started.

I'm on the belief that as a meal, which is how this sold at clubs, any culture, any social economic background can-- is willing to buy a meal at a single serving. We just have the right-- to find the right format or have our distributors find the right format for their culture. So clubs is that right format for some of the down market communities. We have some up market clubs that have actually a little more expensive to get in every day, but they have exercise equipment in it. So you come in, you get the shake, the meal, the tea and you get 15 minutes on the machine and you get nutrition training and so this other-- the model of daily consumption and that's really the objective, daily consumption. Having people buy product daily and consume it daily can work in any culture, any market. Clubs is what's worked best for us today in the down market communities. They could be a form or derivative of clubs that are working in other markets in the future.

Amy Greene - Herbalife Ltd. - IR

Other than just here and outside-- in and around Boston, to give you kind of an idea of spreads for those of you that are local. I mean there are clubs throughout Chelsey and the surrounding markets around Chelsey, but there's also a club-- there's a club in Lexington on the town square-- right in the historic district in the town square. And those have incredibly different socio demographics for those two markets are vastly different. And the way that they operate-- what you would see when you go into the club would be more indicative of the place-- of where you are. But the appeal is similar. It is a socialization aspect of it that's important. And that is what part-- part of what creates the stickiness regardless of who the consumer is.

John San Marco - Janney Montgomery Scott - Analyst

That's all the time we have. (inaudible-microphone inaccessible)

Amy Greene - Herbalife Ltd. - IR

Thank you.



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John DeSimone - Herbalife Ltd. - CFO

Thank you. If you haven't-- if you're interested and you haven't seen a club, let Amy know. She'll get you addresses. Go see a club. It will help, I think, crystallize what we're talking about.

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