

FINAL TRANSCRIPT

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HLF - Q2 2010 Herbalife Ltd. Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for joining the second quarter 2010 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 companies 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 of risks associated with these forward-looking statements and our business. In addition, during this call, certain financial information performance measures may be discussed that differ from comparable measures that are contained in our financial statements which were prepared in accordance with US generally accepted accounting principals. These are referred to by the Securities and 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.



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Please refer to the Investor Relations section of our website, Herbalife.com, to find our second quarter 2010 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.

Michael Johnson - Herbalife Ltd. - Chairman & CEO

Good morning and welcome to our second quarter 2010 earnings call.

I think you know this already, we had a terrific first half of the year. A great way to celebrate our 30th anniversary. In the first quarter we set both to top and bottom line records and we followed that performance with even stronger results at both the top and bottom line in the second quarter. To our distributors and employees, we'd like to say congratulations, as each month in the quarter we set new volume point records. April, May and June are now the three highest volume point months in our history.

Equally impressive is that some of the markets Herbalife has been in for the longest are experiencing double-digit volume point growth. The United States, our founding market, which opened 30 year ago, increased 22% compared to the second quarter last year. Mexico, a 20 year old market, grew by 11% and Korea, open almost 15 years, was up an amazing 92%. The continued growth we're experiencing in these markets, where our penetration rates are the highest, is what gets us excited about the opportunity in front of us for all 73 of our countries. We believe there are three primary reasons why our results continue to outperform our peers in the industry.

First, the consumer awareness of the obesity epidemic coupled with the importance for good nutrition not only here in the United States but round the world has never been greater, and that awareness is accelerating. With almost 63% of our products in the weight-management category, our products are more relevant than they ever have been before. Second, our distributors are working harder than ever as they continue to build sustainable business models with the long-term customers who are consuming our products on a daily basis. This focus on daily consumption, combined with recent changes in our marketing plan, allows more distributor to say access the business opportunity than ever before. It's attracting more consumers and distributors to Herbalife than at any time in our history. And it's enabling distributors to be successful with Herbalife. We have more distributors moving up the marketing plan, committed to growing successful businesses, and we are retaining them for longer periods of time. Third, the brand and the image of Herbalife are continuing to strengthen. Herbalife is more visible and better recognized than ever before.

Together with our distributors we sponsor over 150 teams, athletes and events worldwide, including the LA Galaxy, Puma, Santos, Valencia, FC [Chakra], RC Strasbourg, and the AYSO. Our June sponsorship announcement of FC Barcelona and personal sponsorship of soccer phenomenon, Lio Messi, brought us global press coverage, worldwide recognition and most importantly tremendous confidence and pride among our distributors. At the World Cup, there were a total of nine players from our sponsored teams on the winning Spanish team. It's the competitive advantage Herbalife has in these areas, relevant products, the potential for individuals to build a successful business and a strengthening brand and image that provide the confidence for to us believe we will continue to report strong results throughout the year. Accordingly, we are raising our full year 2010 earnings per share estimates to a range of \$4.30 to \$4.40 on a 12% to 14% volume growth, and a 15% to 7% net sales growth. This new full year 2010 guidance range represents a \$0.50 increase from the guidance provided a quarter ago and would have been \$0.17 higher if not for the impact of currency fluctuations over the past four months.

Turning to the report reported results, yesterday we reported record second quarter earnings per share of \$1.32, which was \$0.55, or 62% above our second quarter 2009 performance. Importantly the improvement of earnings was driven primarily by revenue growth. As was the case with our first quarter results. Our reported net sales in the quarter increased almost 21% compared to the same period in 2009. Our growth was very broad, with all of our regions in each of our top ten markets achieving



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local currency sales growth during the quarter. Des will provide an additional detail regarding the topline results in just a few minutes.

Another indicator of the broad health of our business is that we are experiencing new distributor growth in each of our regions during the second quarter. In total, we had approximately 20% growth in new distributors worldwide. Distributor growth by region is available for you all to see on our website.

Returning to the financials, reflecting one of the strongest aspects of our business model is that we generated \$83 million in cash flow from operations in the quarter. During the quarter we repurchased \$51.2 million in stock and paid \$12 million in dividends. As you read in yesterday's press release, our Board of Directors approved an increase in our quarterly dividends from \$0.20 to \$0.25. This dividend increase reflects the Company's positive outlook for continued growth. Let me add that our first priority for uses of cash has always been and will be remain to make investments and initiatives to support distributor growth and distributor productivity. Herbalife is fortunate that we have the ability to continue to increase our investments in these growth oriented initiatives while also maintaining a healthy return for our investors through both dividend and share repurchase programs.

Before I pass it over to Des, I'd like to recap some of the key events of the past few months. We kicked off the quarter with an amazing events in the Asia Pacific region. Our Singapore Extravaganza was the largest event Herbalife has ever hosted in Asia with almost 18,000 distributor in attendance. We were recently in Europe for Extravaganza's in Kiev, Turin, and Stockholm where we had approximately 17,000 very enthusiastic distributors in attendance. At these events we had the opportunity to speak with distributors who's are moving up the marketing plan and it was extremely gratifying to hear how they are building sustainable business models with long-term customers. Our distributors are also building our brand, wearing Herbalife gear, sponsoring sports and fitness activities in their communities, and getting involved in making their communities better places to live and work. We are celebrating our 30th year in business and meeting with these up and coming distributors and it demonstrates to us why we believe that we are truly just getting started.

So, now let me conclude by turning it over to Des Walsh for specific market updates.

Des Walsch - Herbalife Ltd. - President

Thank you, Michael.

The momentum we are seeing in our business continues to be driven by two key elements. The ongoing successful expansion of daily consumption business methods focused on creating long-term customers and the increased level of distributor engagement in hosting Herbalife opportunity meetings, success training seminars and other training sessions throughout the world. We continue to see the expansion in daily consumption business methods as the largest driver of our distributors businesses and Herbalife's growth. We believe that the momentum behind this evolution will continue to accelerate as more distributor in more markets have success acculturating daily consumption business methods in their markets.

We are seeing different elements, or means, of daily consumption blended with our traditional business methods. In some regions, the acceleration in creating long-term customers is driven by weight loss challenges. In others, it is through nutrition clubs in various forms and now through a newer adaptation of distributor offices that we are seeing emerge in Europe called Lifestyle Centers. I will talk more about some of these as I get into the regional discussions. We estimate the daily consumption business methods comprise about a third of our current sales, but believe that these business methods can continue to add significant incremental growth as distributors take daily consumption deeper into their respective markets.

Now let me provide regional highlights and color on some key markets. North America posted strong growth compared to the prior year period in both local currency net sales and volume points with increases of 20% and 21% respectively. One of the measurements that we use to gauge distributor engagement, average active sales leaders, increased 15% in North America



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compared to last year's second quarter results. This was an exceptionally strong quarter in the US which benefited from growth in both the general and Latin markets and exceeded expectations. US net sales grew 21% and volume points increased 22% versus the same quarter last year, well ahead of our expectations.

In the second quarter of 2010, the Latin market represented 65% of the United States net sales and volume points increased 16% compared to second quarter 2009. We were pleased to see that new distributors and average active sales leaders both increased in the quarter. New distributors were up 7% while average active sales leaders increased 19% over the prior year period. This is the market in which we continue to see significant growth opportunities.

Net sales in the general segment of the US market were up 33% versus the second quarter in 2009. Both new distributors and average active sales leaders increased in the quarter by 47% and 9% respectively. We have been saying for the past several quarters that we believe that the general market was poised for growth with distributor leadership's renewed commitment to daily consumption and hosting more HOMs and success training seminars. The increased activity in engagement level is giving to translate into resumption of growth for this segment of the US market. We believe that the general market has turned a corner and expect to see continued growth. We are excited about the strength of the new distributor growth in the quarter as we believe that it is indicative of a pipeline for future sales leader development in the market.

Moving on to Mexico, local currency net sales for the quarter increased 15% and volume points increased 11%. New distributors increased 5% year over year in the quarter. We are pleased to see average active sales leaders increase by 9% compared to the prior year period. Since Mexico's growth was substantially based on the successful expansion of nutrition clubs, one of our largest logistical challenges in Mexico has been improving distributor access to Herbalife product. With the roll-out of more than 300 pickup locations throughout the country, we have seen meaningful growth in the number of distributors that are ordering from the Company. Distributor utilization of the new locations has dramatically increased the visibility that we have into the ordering patterns within Mexico and we are pleased to see a continued increase in the percentage of distributor orders going through these locations.

The Asia Pacific region continues to be a key growth driver for the Company. During the second quarter local currency net sales increased 40% and volume points grew 53% compared to the prior year period. New distributors in the region increased 45%. Of the 13 countries in the region, three posted more than 50% growth in local currency sales; South Korea, India and Hong Kong. We believe that the growth within the region continues to be driven by the expansion of daily consumption business methods and the high degree of distributor engagement. Average active sales leaders increased 36% in the quarter.

Looking at key markets within the region, let me spend a few minutes discussing South Korea, India and Taiwan. These three markets have had continued success with daily consumption business methods and this remains a key driver of their growth. During the second quarter, local currency sales were up 105% in Korea. Average active sales leaders in Korea increased 63% in the quarter compared to the prior year period. India is benefiting greatly with the increase in the addressable audience who can partake in the daily price point made available by our independent distributors through the nutrition club model. We believe that within India our addressable audience is approximately 300 million people and that the country has the potential for significant future growth. Local currency net sales and volume points increased 99%, and 115% respectively in the quarter. Distributor engagement continued to grow as well with a 105% increase in average active sales leaders. Daily consumption and the replication of nutrition clubs continued to be the drivers of growth in India.

As a reminder, in the first quarter, Taiwan lacked a very difficult comparison in 2009 reflective of the Taiwanese government stimulus program which drove a material increase in the quarter. For the second quarter, volume points in Taiwan rebounded and were up 37% compared to the prior year, and we were pleased to see average active sales leaders grow 40% in the quarter.

Local currency net sales in the South and Central American region increased 6% and volume points in the region were down 2% in the quarter. Average active sales leaders in the region increased 1% over last year's second quarter.



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Turning to EMEA, this is a region where we are now seeing the growth of sustainable business methods focused on the creation of long-term customers. During the second quarter, local currency net sales increased 11% and volume points in the region grew almost 9% compared to the prior year. We are seeing weight loss challenges really gain traction in several markets. And in the Nordic countries, we are seeing growth as a result of increased distributor engagement in distributor offices, called Lifestyle Centers. New distributors increased 17%, and average active sales leaders in the region were up 3% in the quarter compared to the prior year.

Now let's turn to China, where our local currency net sales increased 26%, and volume points increased 26% in the second quarter compared to the prior year period. It was about eighteen months ago when we began to introduce the club concept into this unique market because of the strong success the clubs were demonstrating in neighboring countries. As we have seen in other markets, the acculturation process typically takes up to twenty-four months before we begin to see what we believe to be strong sustainable growth. We believe that our sales leaders in China are making progressing acculturating the concept of daily consumption and we are now seeing clubs open in locations that are more like those which have been successful and duplicable in other markets. With the announcement of a couple of weeks ago, we now have sixteen provincial licenses within China, which we believe to be further validation of our business model in that 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. A fascinating aspect of the growth in daily consumption is the various forms that it is taking on around the world. Nutrition clubs are now just one iteration of daily consumption business methods being successfully leveraged by Herbalife distributors round the world. While we talk about the localization of daily consumption across the globe, it is important to understand that we believe that we are in the early innings of their growth in most of our markets.

In closing, let me congratulate our distributor leadership for the success that they have achieved in the second quarter through increased focus on creating long-term customers with sustainable business methods and increased meeting activity to welcome, train, and activate new distributors around the world.

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

John DeSimone - Herbalife Ltd. - CFO

Thank you, Des.

Obviously we had a strong quarter with 20.5% net sales growth compared to the second quarter of last year, and a 70% increase in diluted earnings per share. As Michael and Des described, the sales growth was very broad-based and driven almost entirely by the increase in volume with currency having only a modest 50 basis point impact on the year over year change. Therefore, local currency net sales accounted for 20% of the increase. While Des has already provided much of the commentary on the regional and key country revenue results, I wanted to reiterate that each of our six regions, and almost 80% of our seventy-three countries experienced local currency sales growth.

Turning to gross margin, our reported gross margin for the quarter was approximately 160 basis points higher than the prior year. About half of that improvement was a result of pricing and much of the remaining difference was driven by currency movement compared to the prior year period. With respect to SG&A, second quarter expenses increased 11%, or \$21 million on sales growth of 20%. SG&A in the quarter benefited from approximately \$8 million dollars of currency gains. Excluding these currency gains, SG&A would have increased by 15% compared to the prior year period and would have been approximately 32% of net sales.



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I'd like to have a brief comment regarding Venezuela. Included in \$8 million currency gain just noted there was a benefit of approximately \$4 million from utilizing the new parallel rate in Venezuela. This rate is currently very restricted and may not represent the rate at which we will actually repatriate cash.

Turning to operating margins, the second quarter improved by approximately 430 basis points versus last year's second quarter. The increase reflected the previously discussed benefits in gross profit, the benefit of currency gains recorded in SG&A, plus the short term leverage from the revenue growth experienced during the quarter. Our effective tax rate in the quarter improved by approximately 330 basis points, primarily the result of country mix, with markets having a lower effective tax rate comprising a larger percentage of our profits than a year ago. Additionally we have received some benefits in the quarter from the implementation of tax planning strategies.

Earnings per share in the quarter of \$1.32 increased by approximately 70% compared to the \$0.77 reported last year. The \$0.55 improvement is largely a result of increases in volume. However, we did receive a \$0.06 benefit in the quarter from a lower tax rate and an additional \$0.06 benefit from the quarter from currency fluctuations compared to the prior year.

Now comparing our reported results to the guidance we provided in April 2010, we exceeded the high-end of the guidance range by \$0.40 reflecting the benefit of higher volume. In addition, we had a \$0.05 benefit due to the lower than projected effective tax rate, a \$0.04 benefit, due to the previously discussed change in the new parallel currency rate in Venezuela. With respect to cash flow for the second quarter, our Company produced cash flow from operations of \$83 million, compared to the \$36 million for the second quarter last year. The 130% improvement is mostly a result of growth in net income, plus the timing of certain working capital items. Additionally we built incremental inventory during the quarter of nearly \$13 million to support growth and volume we are experiencing. We also built inventory in preparation for a shift in some production into our California manufacturing facilities scheduled for later in the third quarter. During the quarter we returned cash to investors of \$63.2 million due through a quarterly dividend of \$12 million share repurchases of \$51.2 million. We invested \$12.3 million capital expenditures during the quarter, primarily in the area of technology, science labs, and manufacturing. Our net debt as of June 30, 2010 was \$73.1 million, less than 0.2 times trailing twelve-month EBITDA and a \$26.4 million improvement compared to the year end, 2009.

Now let me discuss our guidance. For the full year, in terms of earnings per share, we are raising our guidance range to \$4.30 to \$4.40 compared to the previously announced guidance of \$3.80 to \$3.90. This increase of \$0.50 to both the low and high end of guidance is a result of a 40% [beat] in Q2 just discussed plus a \$0.10 improvement in the back half of the year, comprised of volume increases of \$0.27 partially offset by \$0.17 from unfavorable currency rates. Included in our guidance is approximately \$0.02 per quarter benefit from using the new parallel rate of 5.3 in Venezuela compared to utilizing the last free market parallel rate of 8:1.

From a volume perspective we are increasing guidance for the full year to a growth rate of 12% to 14% above our record 2009 performance, and up from the previously provided range of 6.5% to 7.5%. We are also increasing our net sales guidance range to 15% to 17% compared with the previous guidance of 11% to 12%. We expect our effective tax rate to be in the 29% to 30% range for the full year. For the third quarter, our guidance includes volume point and net sales growth of 13% to 15% above the prior year period. We expect our effective tax rate to be in the 30.5% to 31.5% range, and therefore our EPS guidance for the third quarter is expected to be approximately \$0.99 to \$1.03. We are also increasing our capital spending guidance for 2010 and now expect to be in a range of \$70 million to \$80 million, a slight increase from our prior guidance, but the increase is commensurate with the volume increase.

Lastly let me conclude management's prepared remarks with some additional comments regarding our decision to increase the quarterly dividend 25%, from \$0.20 to \$0.25 per share on top of last quarter's announcement to increase our buy back authorization to \$1 billion. As Michael stated earlier, we are confident in the outlook of our business and believe the cash generated from our business will allow us to continue to make significant investments to support our growth initiatives while providing these enhanced returns to our shareholders.



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We will now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Tim Ramey with D. A. Davidson.

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

Good morning. Congratulations. What an amazing quarter. You didn't really touch on the verticalization, and I understand that's just beginning to kind of produce product out of the new plant and roll into the fourth quarter, but can you give us an update on the verticalization plans?

John DeSimone - Herbalife Ltd. - CFO

Sure, Tim, this is John. We have been saying for the last few months that this is a really third quarter ramp up, late third quarter ramp up, so the activity level today is pretty much where it has been for the last few quarters, which is about 15% of US production. So this is more -- something will you see coming through the P&L late Q4, really one inventory turn after we, we move production to the facility and it ramps up over the next six months to nine months.

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

Sounds good. And on the share repurchase activity, I mean it was impressive, but relative to \$1 billion it's a long ways. Can you give us any further color on kind of the rate of expected share repurchase activity?

John DeSimone - Herbalife Ltd. - CFO

The \$1 billion was an authorization over the next 4.5 years and it was meant to be somewhat equally spread out. And a portion of that \$1 billion will be a routine buy back and another portion will be more dry powder to deal -- you know, to jump in a big way if there's an over reaction to the stock.

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

Thanks John.

Operator

Your next question comes from John San Marco with Janney Montgomery.

John San Marco - Janney Montgomery Scott - Analyst

Thank you. Good morning and congratulations on the quarter. I'm just trying to bridge the comments Des made about the introduction of clubs in China. Trying to bridge that to the 100% growth we saw in India this quarter. Do you have any data on the mix of daily consumption in India as well as data, or the timing, of when clubs really started to take hold there?



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Des Walsch - Herbalife Ltd. - President

Sure. Yes, hi, John, this is Des. So, so in India, essentially we, we have growth emerging from the smaller base of clubs. We believe that there's approximately a similar number today in both countries, but obviously in India we had a smaller base to start from, plus frankly we've had a lot of focus in the China market in clubs, plus obviously clubs have been a huge factor in our growth in the Taiwan market. So obviously a lot of correlation between those two markets and I think that's the reason for the difference.

John San Marco - Janney Montgomery Scott - Analyst

How long ago would you say the clubs became a real focus? First of all, are there a material number of clubs in India today?

Des Walsch - Herbalife Ltd. - President

Yes.

John San Marco - Janney Montgomery Scott - Analyst

And I guess when did that number become material?

Des Walsch - Herbalife Ltd. - President

Yes, so it's a relatively small number but probably about 800 clubs or 900 clubs in India today which obviously relative to the addressable population that we can now reach with the clubs is very small. So in China we believe there is approximately 1,000 clubs. But obviously, in India, primarily these are home clubs doing relatively small volume compared to those in China. But the upside in India, obviously huge given the new addressable population which we can now reach through the clubs.

John San Marco - Janney Montgomery Scott - Analyst

That's helpful. Thank you. And then, just more generally, more big picture on clubs globally, I think the number was 28% in the total number of club growth globally. Are there any -- if maybe if you could just highlight the one or two markets where that's been the strongest? And then maybe the one or two markets where you are not getting the kind of club, club growth you are looking for?

Des Walsch - Herbalife Ltd. - President

Sure. So, so I guess most significant is what we are seeing in the US general market. So as you know for some time now our growth in the Latino market has been driven by club activity. We are now seeing the general market in the US adopt the clubs with huge success and obviously the US growth is also driven by the combination of clubs and increased meeting activity. So certainly I would say the US would be top of the list.

In addition we've had tremendous growth in the clubs in Korea and so I would think those are the two top markets and obviously venture also in Mexico. We are delight to do see that Mexico's growth pattern continues. We had a hugely successful nutrition club tour there recently. Almost 30,000 distributors participated in that for new training and that's one of the reasons we are seeing clubs continue growth in Mexico.



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John San Marco - Janney Montgomery Scott - Analyst

And are there any markets where, for whatever reason you haven't been able accelerate the opening of new clubs?

Des Walsch - Herbalife Ltd. - President

You know, I wouldn't put it that way. What I would say is that in certain markets we are actually seeing the process of acculturation take a little longer. We have always known that the Mexico model as such can't simply be transplanted into other markets. What has to happen is that a period of acculturation has to take place. That's why we are really interested in what's happening in Europe at the moment because what we are seeing is that our distributors are hugely innovative, hugely entrepreneurial, and what they are doing is they're introducing adaptations of the club model, or the office model, to see what works best in particular countries. And that's one of the things breaks out that we are seeing in the Nordic country with these Lifestyle Centers.

John San Marco - Janney Montgomery Scott - Analyst

And then just one last one, specifically as it relates to the 30,000 distributors you just referenced you got in front of in Mexico, and just in general I mean, you have a lot more sponsorships now, presumably you've got a lot more pent up demand for your Extravaganza's. In terms of SG&A growth, is there -- do you think there's any catch up work you that can do to take advantage of how much the business is firing right now? Whether it's opening new Extravaganza's or, or stuff like that? What -- where do you think you can invest some of this business upside for the future and how should we model SG&A the next couple of years?

John DeSimone - Herbalife Ltd. - CFO

Let me answer that this is John. There is clearly some investment needed in SG&A beyond what we saw in the second quarter. The contribution margin from incremental sales in the short term is 35% to 40% but in the longer term it's closer to 20% because we have to invest behind that growth. And the areas of investment start with distributor facing activity. It is promotions events, events are an important part of our strategy and we need to make sure that the people that need to attend events can in fact attend events at an affordable price. So that is part of our strategy and that will be an area of investment as will the vertical strategy that was mentioned earlier, the intro-- the launching of some new countries, technology is an area of investment as we -- both for internal investment but also to make distributors more effective and productive through training and tools online that help the distributors become more successful.

Michael Johnson - Herbalife Ltd. - Chairman & CEO

So it is mostly distributor facing activities of where we will invest.

John San Marco - Janney Montgomery Scott - Analyst

Got it. Well, I guess supporting 20% volume growth is a, is a good problem to have. So congratulations again and thanks for taking my questions.

Michael Johnson - Herbalife Ltd. - Chairman & CEO

Thank you. Next?



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Operator

Your next question comes from Doug Lane with Jeffries.

Doug Lane - *Jefferies & Co. - Analyst*

Yes, hi, good morning everybody. Staying on the, the vertical integration strategy, and relating it to the cash flows, I assume a lot of the stepped up investment spending, the new \$80 million number, has to do with executing on that strategy. Did we see heightened CapEx like this for a couple of years as the strategy continues?

John DeSimone - *Herbalife Ltd. - CFO*

I've used a guidance of about 3% of net sales as a CapEx number and I think that -- and that includes our vertical integration strategy, so I think that's the right number to model.

Doug Lane - *Jefferies & Co. - Analyst*

And do you anticipate additional capital being deployed on the vertical, on the vertical integration with that potential further acquisitions? Maybe, can you give us what your target is for self manufacture over the next year or three years?

John DeSimone - *Herbalife Ltd. - CFO*

I will give you the longer term objective is 80% of our inter-nutrition products we'd like to manufacture. And that's a five-year goal. That will come through either acquisitions or joint ventures or us starting a Greenfield in certain countries. But right now we -- you know, our first objective is to get our current facility utilized.

Doug Lane - *Jefferies & Co. - Analyst*

And do -- when your current facility is fully utilized, let's say an annual 2011 run rate, how much do you anticipate will you self manufacture then?

John DeSimone - *Herbalife Ltd. - CFO*

35% to 40% of our worldwide volume.

Doug Lane - *Jefferies & Co. - Analyst*

Okay.

John DeSimone - *Herbalife Ltd. - CFO*

(Inaudible)



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Doug Lane - Jefferies & Co. - Analyst

And then lastly on the, on the cash deployment, the, the buy back approximately \$50 million, is that a pretty good quarterly run rate to think about going forward? And then dividend growth, 25% is pretty aggressive, but should we expect double-digit dividend growth, sort of at an annual run rate?

John DeSimone - Herbalife Ltd. - CFO

So I will deal with the dividend in terms of yield, all right, and our objective is to keep the yield in the 1.5% to 2% range.

Doug Lane - Jefferies & Co. - Analyst

Okay.

John DeSimone - Herbalife Ltd. - CFO

(Inaudible) with this quarter that we were going to dip below 1.5% so we took it back up to 2%. You can expect that going forward. From a buy back standpoint, you know, like I said, there is a piece that will be routine and a piece that will keep some dry powder on the books to jump in opportunistically. And how much that's going to be, we are not sure. I wouldn't say it's \$50 million a quarter, but it might be depending on what's going on with the stock.

Doug Lane - Jefferies & Co. - Analyst

Okay. Fair enough. Thanks.

Operator

Your next question comes from Bret Jordan with Avondale Partners.

Bret Jordan - Avondale Partners - Analyst

Hi, good morning. One question, I think a couple of quarters ago you talked about extending the payments by distributors eventually letting them float their inventory. Do you have a feeling for how many are doing that? Whether that's helping to drive the, the pick up of

Des Walsch - Herbalife Ltd. - President

Yes, Bret, it's not a factor. This is a very small test that's happening in one market with a, literally a small group of distributors while we evaluate the pros and cons of this. So at this stage it certainly isn't a factor that's reflected in any of the numbers we are seeing today.

Bret Jordan - Avondale Partners - Analyst

Okay.



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Operator

Your next question comes from Scott Van Winkle with Canaccord.

Scott Van Winkle - *Canaccord Adams - Analyst*

Hi thanks. Following up on a, on a previous question about nutrition club growth, is there any way to measure either in percentage of markets, or percentage of volume, or some type of target as to percentage of volume that ultimately we could go through a daily method of operation? I'm just wondering, how far along are we either in those that have been launched, or those that have reset, that two year type of maturity phase and you're starting to see the benefit?

Des Walsch - *Herbalife Ltd. - President*

So, Scott, we believe that we are frankly in the early stages in most of our markets and hardly have begun in others. So, so the road ahead in terms of the adoption of daily consumption, the development of clubs and offices, is, is very substantial. Today, in some markets, in Mexico, for example, which is the most advanced in terms of nutrition clubs and where they originated seven or eight years ago, we estimate that as much as perhaps 70% of our business is done through the clubs. What's important to recognize is that our traditional business is just as strong as it ever was. What's happened is the clubs have increased the percentage of the addressable population and that's what's given rise to a whole group -- new group of customers. So we are seeing that same trend happen in many other countries but I think in most of the countries we probably have a maximum of probably 30%, 35% in some other markets done through the clubs. So certainly a huge amount of head room in almost all of our markets around the world.

Scott Van Winkle - *Canaccord Adams - Analyst*

Thanks. And, and Des, how did the Lifestyle Center differ from the other daily use model?

Des Walsch - *Herbalife Ltd. - President*

I think in two key respects, Scott. The first is that we don't have prepared products available in those locations. So they purely are distributor offices. But again, as a testament to the innovation of our distributors, what they represent is a group of distributors coming together, working out of this office, and working in that office creates a unique dynamic. First of all it creates the discipline. Secondly it results in activity. And thirdly it's a place where customers and prospective customers can be invited to participate in wellness evaluations, education seminars, it's an office where distributors hold Herbalife opportunity meetings. So it just becomes -- a, becomes a focus of distributor activity and engagement and what we are seeing is that translates into increased productivity and success.

Scott Van Winkle - *Canaccord Adams - Analyst*

Is it different than, than how distributors would utilize a walk-in center in Hong Kong or Taiwan or something?

Des Walsch - *Herbalife Ltd. - President*

Yes, very different because the walk-in centers are operated by Herbalife. These Lifestyle Centers and other distributors offices are operated and funded by a group of distributors themselves. So very -- totally independent from any activity by the Company.



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Scott Van Winkle - *Canaccord Adams - Analyst*

Great. Thank you and congratulations.

Des Walsch - *Herbalife Ltd. - President*

Thanks, Scott.

Operator

Again, (Operator Instructions) Your next question comes from Chris Ferrara with Bank of America.

Chris Ferrara - *BofA Merrill Lynch - Analyst*

Hi, guys, sorry for the broad question, but growth was so broad-based everywhere this quarter and, you know, I understand that engagement and a daily consumption model was driving a lot of this, but is there any sense at all that this was just an over the top quarter, like a -- a kind of once in a lifetime quarter, a lot of things came together? Or do you really feel like there are very clear reasons in every market? I'm trying to get a sense for -- without getting too specific market-by-market the sustainable of the, of the current growth rate that you are seeing on the topline?

John DeSimone - *Herbalife Ltd. - CFO*

Chris, this is John. I think it's important that we are clear that we don't believe this is a blip. We think we have real momentum and if you look at our forecast for the back half of the year, we are looking at mid -- low to mid teen volume point growth on much more difficult comps than we had this quarter. So this is real momentum.

Chris Ferrara - *BofA Merrill Lynch - Analyst*

And I guess can you give an update on the change in the comp plan? All right, I mean, is there any quantified view on the effect that that, that that's had on the business? O mean, how big a roll do you think that's played in the accelerated growth?

Des Walsch - *Herbalife Ltd. - President*

Yes, hi, Chris. So a couple of things. First of all we see it in terms of the new distributor growth. So obviously the business opportunities is now more attractive. We have more customers becoming distributors. And the secondary that we see is in, is in the growth of new supervisors through the 5K Cumulative Method. So, as you know, this is a program that was first tested in Russia and obviously we are thrilled to see the Russia results and the impact and the number of new supervisors that we are having coming through this method. What we are seeing is that in other markets it is being -- also being adopted and we see this reflected in terms of two things. One is, again, new distributors coming in, and then secondly, the pipeline being filled as we have more and more distributors qualify as supervisors through this cumulative method. So, I think the real benefit we are going to see one year, two years down the road as that pipeline comes through, but certainly very successful initially and we are very excited to do see what happens down the road with this.

Chris Ferrara - *BofA Merrill Lynch - Analyst*

Thanks, guys.



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Operator

At this time there are no further questions. I'd now like to turn the conference over to CEO, Michael Johnson for closing remarks.

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

Well, thank you everyone. Thanks for being on the call today. It's really gratifying actually to see John and Des answer all the questions and I can sit back and enjoy a little bit of the interchange and some of the quality questions that come across.

But also frankly think about some of the stories that make up this Company, and we have a process called Third Cut Calls here, and I don't want to get too obtuse with it, but a Third Cut Call means that somebody is qualified for one of the top levels of our distributor marketing plan and the President's team, and these people are usually making somewhere around \$150,000 a year. Sometimes more, sometimes less, but just kind of on average around that area. And a couple of months ago we had our Third Cut Call out of the Midwest in the United States. So I'm bringing it home here to the US. And it was a woman who was a Phys Ed teacher in the local high school and she saw a lot of students with her students and with her parents in terms of weight management, weight control. So she adopted a club model, and she started to build an opportunity for both her students and her parents to come to her club, to lose weight, to also retail the products so they can take them home so they can have a shake in the morning, replace a high calorie meal with a low calorie meal to get them active, build a lifestyle in them that frankly was a big change from where they were. She took her opportunity to change people's lives, the mission for nutrition, and turn it into a business opportunity. This woman in a small community, we are talking under 20,000 people, is now making \$150,000 a year and still is a Phys Ed teacher in her high school.

These are the kind of stories that we are seeing on a global basis, not just in the Midwest of the United States, but we see them in Mexico, and India, and we are starting to see them in Europe, and we see it in Asia day in and day out. This is what's gratifying about our Company. We are changing people's lives. We've got a great product. We are positioned better than we ever have. Our distributors are engaged. They are working hard, and as I said before they are on a mission to help customers with a healthy active lifestyle.

Next quarter, you guys, we'll be hosting our annual Analyst and Investor Meeting in conjunction with our third quarter earnings release. We will give you more details on that real soon. And to kind of close-up here, we are confident we have the opportunities and initiatives needed to continue to grow our business and Herbalife to be a leading brand recognized and respected around the world. Thank you.

Thanks for being part of our mission for nutrition and helping people lead both healthier, active lives and participating in our earnings call today. And, of course, to all our distributors and employees listening in, what a great quarter. Thanks for your spectacular efforts and as you know at Herbalife we succeed as a team. Thanks.

Operator

This concludes today's conference. You may now disconnect.



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