

FINAL TRANSCRIPT

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HLF - Herbalife Ltd. at Bank of America Merrill Lynch INVESTMENT CONFERENCE

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Chris Ferrara

Merrill Lynch - Analyst

PRESENTATION

Chris Ferrara - *Merrill Lynch - Analyst*

Next up, we are pleased to have Herbalife. Herbalife is a direct marketing Company selling mainly nutritional products through about 2.1 million distributors, through 73 countries. With us here is CFO, John DeSimone. John joined Herbalife in 2007 after 17 years in corporate finance elsewhere including runs at Rexall Sundown, Precision Response and Sunbeam and I know he is going to walk you through interesting story. I appreciate you being here. Thank you very much.

John DeSimone - *Herbalife International of America, Inc. - CFO*

Thank you Chris. Can everybody hear me? Okay. I'll start with the Safe Harbor statement, if you want to get to it in detail, the details are on our website, if somebody wants to read about the Safe Harbor statement. We are going to start the presentation off a little differently than we have in the past. We generally tell the story, it's a unique story and then we show the results. But we're going to start off with the results. Our second quarter was a great quarter. I think it's an eye-opener and it hopefully gives an indication of the opportunity that's in front of us. In the second quarter, we had volume point growth, now volume point is essentially a proxy for retail sales, that's the way to think about it, in US dollar terms and it's constant currency.

So we had volume point growth of 19.9% worldwide, very broad-based growth. You will see as I go through the various regions that almost all our regions had growth in 80% of our countries, we are in 73 countries, 80% of those countries had growth in the second quarter. And then we're talking to what's driving the growth in a few slides.

North America, which is almost entirely -- so we break out Mexico separately from North America. So, North America is almost entirely the US, there is a little bit of Canada, a little bit of Jamaica, but it's almost entirely the US. And the US was the Company's first market. It opened up in 1980, 30 years ago and in the second quarter this year we had 21.1% growth. I point this out, because I think it's unique to Herbalife that in its oldest, most mature markets it's having strong double-digit growth, where a lot of competitors of ours are having growth in emerging markets, you'll find our story is both emerging and established markets and we'll talk about why in a few slides.

Mexico is a 20-year old market, they had almost 11% volume point growth in the second quarter. This is really a country that was the genesis of the new business model, back a few years ago, daily consumption that we'll talk about again in a couple of slides.

South America was the one weak region in the quarter, it was down 1.9%. There is two countries that drive South America for Herbalife, Venezuela, which has lot of noise around Venezuela, and Brazil and Brazil is adopting daily consumption and it's having -- the component of Brazil that's adopting daily consumption is having double-digit growth and that's being dragged down by the two-thirds of the market that's not adopted daily consumption yet.

EMEA, EMEA stands for Europe, Middle East and Africa. It had 8.6% growth in the second quarter, that's the strongest growth it's had in over five years in EMEA. China had almost 26% growth and it is a fairly new market for us, only 41 million volume points, but a lot of opportunity. And then Asia Pacific had 52.8% volume growth in the quarter that's led by Korea, which had

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92% growth. India had 115% growth, Taiwan had, I think it's 30% growth, but the key and you will see that this is going to be readout throughout the presentation, the key is that there has been a new evolution of our business model, the way distributors go to market that allows them to reach a whole new consumer base that traditional direct-selling couldn't reach.

From a net sales -- last page was volume points, this page is net sales, we had 20.5% net sales growth in the second quarter, almost equivalent to the 19.9% volume growth. So, a little bit of currency but not much. 420 basis point operating margin improvement. We had a great operating margins in the second quarter, that 16.9% was a record for the Company. That's not what we expect going forward, that's somewhat inflated, because the contribution margin in the short term in our business model, 35% to 40% of net sales. So, when we have a [blow eight ball quarterly] if we did, we have so much revenue in the quarter, a lot falls to the bottom line. Longer term we have to invest behind that growth to maintain it. And from an EPS standpoint, 70% earnings growth in second quarter up to \$1.32.

We provided guidance, it's the same guidance we provided at the end of the second quarter results; I just want to read -- just put it up here. We have third quarter guidance of 13% to 15% volume point growth, full-year 12% to 14% volume growth. Net sales also 13% to 15% in Q3, 15% to 17% full year, so there is some currency benefit for the full-year. And EPS for the third quarter of \$0.99 to \$1.03, and for the full-year \$4.30 to \$4.40, on a full-year basis that represents little over 30% EPS growth. We had great Q1, record Q2 and we expect strong results for the rest of the year.

So why? So provided the results, now this is the story behind it. So first and we don't talk enough about this. But our products are the real need, right. We sell nutrition-based products and we are in a world where there is more need than an ever for nutrition-based products or products like ours and the awareness of that need has never been greater and it's accelerating. And it's not just a western culture, like people think obesity and people being overweight is something that's more western and maybe it was at some point in time, but it's [spread east] pretty quickly. In China, 24% of the adult population in China is overweight, they are not obese but they are overweight. That's 220 million people overweight in China, that's more overweight people in China than the US. Two thirds of the adult population in the US is overweight.

So India for example, ten of the -- 18 states in India have at least 10% of their population overweight. So, even though we don't think of the eastern culture is having a weight problem they are starting to have obesity and overweight problem as western diners move to east, right. We tend to follow fast food, right. So, McDonalds, Burger King, those types of fast food chains when they go into countries they create a problem that we have a solution for. So, we don't talk about that enough but that's an important element of the story.

More importantly is that those products are under traditional direct selling, traditional direct selling is you sell basically a monthly price point. So our view, you find medium to high price purchase done infrequently. So, somebody would buy a month supply of product for \$30, \$50, \$100. That worked well for a certain segment of the population that can afford to take that kind of money out of the pocket at one time and purchase their product. But there was a whole another segment of the consumer that couldn't afford to participate in that monthly price point.

And the new model, the evolution, the daily consumption model offers the consumer an opportunity to buy just the products they need for that day, just one use at a time, one serving at a time. You'll see a slide in a few pages that compares this to coffee, right. So the coffee at \$2 a day, very affordable. Lot of people reaching their pocket, pull out \$2 and buy coffee. If you had to buy that, [month supply], you have to go to Starbucks and spend \$60 at the beginning of each month. Some people could do it, but far fewer people could afford do it and can afford to participate at \$2 a day and that's been the evolution of the model within Herbalife.

It started in Mexico and will get into little detail. It started in Mexico in 2003, spread to the -- a segment of the US in 2006. But it's just now starting to become popular in the general market in the US and many other countries that didn't adopt that model (inaudible) and then this is called strengthening brand, right. So our products are relevant, our business model reaches more people than it ever has and our brand is strengthening. We sponsor 150 teams around the world. We tend to brand through



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sports. Because it supports a healthy active life style, which is our message and we do a lot of branding through soccer because it's a global sport and we are a global Company.

From a product line standpoint, almost 63% of our product is in weight management. I think it is important to note that that's not the magic pill that's chasing supplement. This is the life style oriented, food oriented weight management product. Our number 1 product is the Formula 1, it's a meal replacement shake. It represents half of that 63% of sales. So it's not a contentious product, it's 30 years old. It's food oriented and you will see that in the next slide. 23% of our sales was targeted nutrition, that's condition specific products like health or brain health. Little under 5% of our sales are in energy and sports nutrition, and another 5% in personal care, which both offer an opportunity for us.

Purpose of this slide is again to just get you mind on who we are as a company, we are a much more functional food company than a supplement company. Four of our top five products are functional food products and our top five products as a group represent 61% of our sales. So again just to kind of give you a vision of who we are. This again -- this is the new model, the traditional model versus the daily consumption model, traditional model. In direct selling, you pick up a phone, you'd call your customer once a month or once every two weeks whatever the cycle is then you try to get an order from that customer. Does it penetrate, it's a very low penetration model, very inefficient model for distributors, right. Distributors have to call their customers up once a month, there is way to reach their customers in a group.

Other than you can schedule a meeting, but you still have to call or schedule a party or a meeting or whatever it may be. And the turnover is pretty high in that model. In daily consumption, nutrition clubs, people, consumers purchase just what they need for that day so instead of getting a lot of -- a few people to purchase a lot, you get a lot of people to purchase a little. It penetrates much deeper into the marketplace as people can afford to buy the products on the daily price point, but customer turnover is much lower, the retention of the consumer is much higher, and it's a much more efficient model for distributors because now customers are coming to them, instead of them going to customers.

I will spend a minute and tell you what a club is. So how many people have been to clubs? You really should go to clubs. Amy, who is our Vice President of Investor Relations, will be happy to get you some addresses. But the genesis of a club, I would say the genesis, and will give you a feel for what a club is. We had a (inaudible) who was a distributor in Mexico in 2003. He saw the value in our products-based community, right. People in his community have very poor diets, he wanted to give them Herbalife, but they couldn't afford to participate in that monthly price point.

So, he opened up his house with a home club. He invited consumers to come into his house, pay a fee to get in and they would get the meal replacement shake, they would get a cup of tea and a aloe drink, which is for digestion. So they get three drinks for a nominal fee and that would be breakfast. And it was a trade off in dollars, non-incremental spend it's another important point, right. So the idea was to sell these three products as a meal, if you find somebody who was buying a meal somewhere else they come to an Herbalife club, they spend a few dollars, they get their meal, it's replacement spend, it's better nutritionally, but cheaper on what they might spend at a McDonalds. That model in Mexico worked really well and had tremendous growth for a number of years.

But it didn't extend beyond -- extend to Latin America, but it didn't extend beyond Latin America because it's a model that most of our distributors felt couldn't work in their culture. So in Mexico, they are very social, they are accustomed to having people come over their house, they worked very well, didn't extend beyond Mexico and Latin America.

In 2006, [Brazil is right] and they really evolved the model to more a commercial club, which is the same concept as a home club is expect it is done in a rented commercial space and that model fits in much better than most cultures, [get the coffee slide]. But let me put some numbers around it, what I think the opportunity is or what we think the opportunity is. So I guess this slide requires a little bit of set up. So the blue bars are the penetration rates for our top five countries back in 2003, which is before clubs were started.



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The green bars are the penetration rates in 2009. So in Mexico 1.2 volume points for capital, again volumes points is about retail -- equal to retail sales with the penetration rate in Mexico in 2003. As the club started growing in 2009, that was the 4x growth and was 4.4 volume points per capita.

In the US Latino business, it went from 2.3 to 10.8, in Taiwan 2.9 to 8.7, Korea 1.2 to 3.0, Brazil has doubled. And the message is that this deeper model, the model where people can now buy the product they need at a daily price points, reaches a lot more consumers and we've seen it work in a lot of countries and now it's time to spread outside of these Top 5. I think Top 5 were the first five, but now the general market in the US has 33%. General market is the non-Spanish speaking market in the US that had 33% growth in the second quarter driven by daily consumption model.

So this model is now just starting again to most of our countries. One of the things I said earlier that what's unique to Herbalife is our growth is coming from both established and emerging markets. Established market is not all established markets, but established markets as defined by the World Bank, were up 23.8% in the second quarter and emerging markets were up 16.2%.

When we look at some of the key metrics for our distributors, in the past it was always new sales leaders, right, so it was a recruiting metric. We've evolved away from that into what we call active sales leader. So it is not so many -- it's not so important how many people are coming into the business, but how many people are engaged in the business, how many people order in each month at a sales leader standpoint. So the engagement level is the quality of sales leader measurement.

And in Q4 of 2008 when things fell apart economically, we still had more people engaged. We may have had -- they may have been ordering less as they were concerned about the economy but they were still engaged and they started to come back pretty quickly in Q1. So we could see that our growth was going to come back pretty quickly and if you look at new distributors on the right and a growth in Q2 of active sales leaders it looks like we are back to pre-Q4 2008 levels. We have as the Company recovered from the economic climate of 2008, which I think is ahead of most of our competitors.

Another strategy we have, -- it's an important strategy for the Company, is what we -- the Seed to Feed strategy, it's a strategy to be vertical. The hierarchy of the reasons is to why we want to be vertical, first and foremost, protection. Okay, we want to be in control of our product from the field to the consumer. We think that's a big marketing advantage, but it's also a credibility advantage -- credibility with regulators, with governments, with press. And so, we launched this initiative more as risk avoidance.

In addition, distributors will use this as a great marketing vehicle, because it is a great marketing opportunity, right. We'll know exactly which field our ingredients have come from. We don't think anybody else in the industry will have that advantage. And third, there is an ROI associated with this, there is a payback associated with the vertical integration strategy. We're looking at 100 basis points to 200 basis points of improvement over three to five years.

A look at our cash flow. We generated a lot of cash. And this is an important slide, this slide and the next slide, I like quite a bit. This flip shows that net income is a proxy for free cash for this Company. All right. Depreciation [goes above] CapEx, so therefore net income ends up -- working capital is negative so cash flow is about equal to net income, that's an important point. You can see over the three years -- for three and a half years since 2007, they almost equaled each other.

There was one exception in 2008, where we had a big capital expenditure, because we put Oracle in around the world, but outside of that, this is a -- it's a good proxy for cash flow. Equally as important is, we return that cash flow to the shareholders. [It] looks that our combined dividend and share repurchase since the beginning of 2007 and we have returned 110% of net income to our shareholders through one of those two vehicles.

So, we generate a lot -- so this is kind of [hard], we generated lot of cash, we invest in our business behind growth initiatives that equals about 3% of net sales from a modeling standpoint. After that, we are not a big M&A company, we are not looking to buy anybody of size. So, there is not much left but to return cash to shareholders and to indicate the shareholders our commitment to that we've launched -- we've announced a \$1 billion buy-back program that expires at the end of 2014. So you



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can expect to get the money back through the buy-back and we increased our dividend from \$0.80 a share per year to \$1 per share last quarter, 25% -- \$0.25 per quarter.

We are very concerned we're being capitalized. Again, debt for us is not a necessity, it's a capital structure decision. Our net debt was 0.2 times trailing 12-month EBITDA and our gross debt was 0.7 times, very conservatively capitalized. The debt is due in 2012 and 2013. And I think -- and I think it's just good to know that we could pay it off the cash flow from the business, if we decide we want to. So, we have the ability to, not that we will, but we have the ability to.

From a valuation standpoint, we have direct selling peer group and then we have CPG companies. We put some CPG companies up here, because we think our cash flow, our EBITDA per share is more reflective of CPG companies, but our valuation is more in line with direct selling. So we think this is somewhat of a disconnect and the valuation is still a big opportunity for investors.

In summary, this just kind of brings back the big picture. Our products solve a real need. We're now addressing more of the population than we've ever been able to address with our products through daily price points. We have a strengthening brand. Our business is a very low capital business. We generate a bunch of free cash so we return that money back to shareholders, and then we still think we're undervalued, despite a nice run in the stock over the last two months.

That's the quick presentation, I thought we would open it up for questions. We do questions first -- we are happy to answer. Yes.

QUESTIONS AND ANSWERS

Chris Ferrara - *Merrill Lynch - Analyst*

Could you talk a bit more about sort of the profile of your distributors? Has that changed when you introduced the daily price points, or they have full-time distributors sort of -- so some more meat on the distributor side?

John DeSimone - *Herbalife International of America, Inc. - CFO*

So most distributors get into the business with a part-time opportunity, okay. And that's really a benefit of a commercial club versus a home club. Generally, in the commercial club, you'll find four or five distributors that group together and open up a club so that one person can work Monday, another person can work Tuesday. So, there is that part-time element, at least at the beginning, okay. There are distributors then who feel like the opportunity is greater than they originally thought and they try to get into it full-time.

But the best distributor is -- who we find to be the best distributor is somebody who is a product first, they got on the product, not because of the business opportunity, but because they believed in the product or somebody they knew believed in the product. They find the product works, they become passionate, and then they go work in the club to learn how to do a club and then open up a club. Those are the most successful distributors. Those distributors who become the sales leader over a period of time, instead of quickly, are much more successful than those who become quickly. So, the people who come in with the full-time mentality right away, I'm going to make money out of this, there is a success rate for those too, but it's lower than those people who come in part-time first and work their way up.

Chris Ferrara - *Merrill Lynch - Analyst*

The second question on manufacturing, where are those plants going to be sort of your manufacturing?



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John DeSimone - *Herbalife International of America, Inc. - CFO*

We have a plant in China that's just begun. We purchased a plant in Orange County, California in the third quarter of last year, that will make a majority of the US product and some of the international products, that's what we have right now. Then, we'll look to realizing manufacturing probably Brazil, India, somewhere else in Southeast Asia and somewhere in Eastern Europe. That's our thoughts right now. We haven't specifically identified the countries, but those are the geographical regions where we'll look to manufacture.

Chris Ferrara - *Merrill Lynch - Analyst*

And have you ever sort of updated your COGS goal of lowering COGS sort of with this initiative? Have you -- when you started the initiative, was it lower, higher, the COGS goal or --?

John DeSimone - *Herbalife International of America, Inc. - CFO*

Again so I think it's important to recognize that we did not get into this first for cost savings, but we got into this first for protection, risk avoidance and marketing, right, the marketing benefit of it. But when we did get into this, we set it 100, 200 basis points over three to five years. We still believe that's accurate. We're just now executing the plants and we purchased the facility in the third quarter of last year. Our products did not move into that facility in a meaningful till next month, right. So I don't have enough new information to change that expectation. So I still think it's real.

Chris Ferrara - *Merrill Lynch - Analyst*

I was looking at your catalog and is there an opportunity to introduce more products or do you want to keep it to a limited set? And the second question is, the prices in here, are those global prices or are they much cheaper in different parts of the world depending on where are you?

John DeSimone - *Herbalife International of America, Inc. - CFO*

So I'll answer the first one -- second question first. Prices are different in every country. So if you're looking at a US catalog, you're looking at US retail pricing, not the distributive cost. And your first question, yes, we could do better at launching new products. This is not a traditional supplement company where growth is driven by new products, right. New products are not the growth driver for us. But very important element of distributor engagement, motivating distributors to both not only get excited about the Company but give them a reason to call up customers that they want to call up customers they haven't seen in a while.

So, there is an element of product development that's important to the Company, but it's not that incremental sales driver immediately that you might see with your traditional both CPG companies or supplement company. So it's an element we could be better at it. We are getting better at it. We'll have a -- for those of you that will be in New York for Investor Day, November 2, there will be a whole presentation on product and new products.

Unidentified Audience Member

Like to elaborate a little bit more on what a club environment is. I mean I am kind of envisioning a smoothly shop, is that off the mark?



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John DeSimone - *Herbalife International of America, Inc. - CFO*

Yes, it's a little of the mark. So it's not a retail establishment. It's a private club and you pay to get into a club and you are a member of that club and you get the three products as part of that membership. But it's right now a lot of them are down market. So you walk in; on the outside, there is no signage; there is no -- it doesn't look like a retail store, you don't recognize it's club to you on the inside and when you are inside, it's just social support network. It's all about nutrition coaching and weight management and weight loss. And you'll find that if -- so if you were a member of the club, your before and after picture would be on a wall.

Unidentified Audience Member

How much control do you have over the environment that your distributor is creating here?

John DeSimone - *Herbalife International of America, Inc. - CFO*

But we have a set of rules that we have control over, but at the end of the day, these clubs are entrepreneurial clubs, right. And that works to our benefit, it may not sound it but it works to our benefit, because the best ideas are not the corporate ideas, distributors know how to make the model work in their environment. You are going to some clubs and there will be folding chairs with a big-screen TV in very down market, other clubs will have extra equipment.

It's an entrepreneurial environment and the owner of the club decides what the feel of the club should be and it fits with other demographics they are trying to fit. There is a bunch of rules, but they can't break that we control, but as long as they're within the rules, the entrepreneurs and they know what works. What the Company's strategy is, is to take the best ideas we just have and globalize it. So we have a great distributor database that lets us know distributors that are performing really well. We go find out why that is granted in good daily consumption business fundamentals, then we try to globalize it. The best thing -- the best answer I could give you is where do you look?

Unidentified Audience Member

San Francisco.

John DeSimone - *Herbalife International of America, Inc. - CFO*

San Francisco, we have a lot of clubs in San Francisco. And if you are interested in the story, visit the club, it will do more for your understanding of the opportunity than anything we can do standing up here.

Unidentified Audience Member

One more question. Can you just describe the compensation structure for your distributors and how it varies among markets?

John DeSimone - *Herbalife International of America, Inc. - CFO*

Okay. There is only two markets where it varies, because we'll have to for regulatory reasons, [Canada and Korea]. Everywhere else, it's the same, around the world, all the other 71 countries. There is two ways to make a profit as a distributor within Herbalife; it's the retail component, right. So you distribute it, buy the discount and sell it at retail and that represents about two-thirds of the profit opportunity and then there is a royalty component and that royalty component allows a distributor to earn money on other distributors they bring into the business, all right. That helps drive duplication, that's the motivation for a club operator to train other people to open up clubs. It drives duplication, that ability to earn royalties. And royalties represent around 35%



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of our net sales. That's the cost if you look at our P&L, which you can view it advertising training that's really kind of what that buckets meant to represent, that's how we get our message out, it's through distributors.

Unidentified Audience Member

Is the product benefit more disseminated from the club members, the distributors and the marketing channel, or is it more third-party experts, that sort of thing validating the benefits?

John DeSimone - *Herbalife International of America, Inc. - CFO*

So, the benefits are scientifically based, third-party or third-party clinical studies, but we have a lot of PhDs and scientists that work with the Company within the Company, but that message, that science message is given to our distributors to educate consumers, right. We don't go out and drive pull through advertising a product benefit. We have our distributors do that. We give them the tools and training on how to do it, but with they're providing the science. It's not them coming up with what they think might be the benefits. We provide the benefits with scientific backup.

Unidentified Audience Member

And how are the products developed for new areas like I was just looking at your catalog and sort of the muscle or milk knock-off segment? When did you enter that market and how did you develop the products differently to address that segment?

John DeSimone - *Herbalife International of America, Inc. - CFO*

Well, product ideas come from a lot of places, right. They don't always come from in the Company. Matter of fact, a lot of times, they come from outside experts who bring us ideas and we validate those ideas and we take those products and sell them through our channel. So, specifically who generated the idea that on the product you're looking at, I don't know, but I can tell you the science that goes behind it is tremendous. We've got the only Nobel-winning scientist in nutrition works at Herbalife. Dr. Bill Frankos, the former Head of the Dietary Supplement division of the FDA works for us. So, we've got a ton -- we validate all the science, we're responsible for the science, but we don't do a lot of the research. It's -- our R&D is, [it deals off], most of the research comes from outside and then we develop a product that fits with our research and we validate it. Yes.

Unidentified Audience Member

I've heard of unit volumes, never volume units, so what is that?

John DeSimone - *Herbalife International of America, Inc. - CFO*

Volume points and it's unique to Herbalife. Let's just use this as an example, okay? So, if this product's sold for \$10 in the US, it would have 10 volume points attached to it. So that 10 volume points will be the same everywhere in the world. Regardless of what the price is in Korea or what the price is in Italy, this product has 10 volume points in every country, right. It might sell for 8 euros or might sell for 16 euros, it's irrelevant, it's a volume point metric, right. So it takes out currency, it takes out exchange rate, it's just retail sales in US dollar terms around the world. The reason why we use it is because we have one worldwide marketing plan for our distributors, right. So if our distributors have to do a certain amount of volume point to become a sales leader, it's the same amount of product sales, not dollars but units everywhere in the world. So, makes an easy marketing plan for distributors to train on.



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So if I'm a distributor, I can have somebody in Mexico, Korea, Italy, get them on the phone and we're talking the same language, we're talking volume point, and every product has the same volume point in each of those countries. It sounds confusing? Don't worry about what volume points are, worry about what volume point comparisons are, or only worry about year-over-year. It's a buck, it's a volumetric, it's a good comparison for Wall Street. For us, we have other uses for it, because they have -- distributors move up the marketing plan. For investors, it just matters what you've done year-over-year. If you want more details, we'll happily give you more, but it gets a little complex. But -- yes.

Unidentified Audience Member

[Over -- that's all, South America].

John DeSimone - *Herbalife International of America, Inc. - CFO*

Sure.

Unidentified Audience Member

(Inaudible question - microphone inaccessible).

John DeSimone - *Herbalife International of America, Inc. - CFO*

So we had -- there are two countries that a majority of the volume in South America. So Venezuela is one, right. Venezuela, there is a lot of noise going on -- goes on in Venezuela. It's a country that Chavez makes it very difficult to be successful in, right, between currency controls and importation controls. So that has an impact on our business, okay. And things have gotten worse with those currency controls in Venezuela, so that's impacted our business. And in Brazil, a third of Brazil's business is done by distributors who do clubs; two-thirds are not yet. They're done by distributors of your traditional business. The club business was up double digit, the non-club business was dragging it down. Those are the only two reasons why South America was declining.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

John DeSimone - *Herbalife International of America, Inc. - CFO*

No, that's fine. That has nothing to do with FX, that just has currency controls and importation controls, inhibits our ability to do the business sometimes, right, and that has an impact on volume. Their FX issues have been EPS, but does not in volume. And actually that was a positive this quarter, shouldn't have been, but it was. Yes.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)



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John DeSimone - *Herbalife International of America, Inc. - CFO*

No, it wasn't quality control as much as it was control, right. So when we go -- the way we've met Dr. Frankos who was with the FDA is proactively getting with the FDA on regulations that we support. Helped to elevate good manufacturing practices and regulations within the industry, if you're not the one producing your product and you have to go to ten co-packers and convince them to invest in here. So we wanted to elevate ourselves and elevate the industry, and we thought we needed to control manufacturing in order to do that. So we were completely in charge of quality control prior to these verticals. It was still all our responsibility.

Unidentified Audience Member

John, can you talk about the penetration level of the club business right now, I guess, globally? In what inning are you and what's the incremental growth opportunity? And I guess as a follow-up to that, are all countries and all markets, is it going to be as easy sweating -- I wouldn't -- not easy sweating but are they as adoptable in the countries where they are not right now?

John DeSimone - *Herbalife International of America, Inc. - CFO*

It's becoming more adoptable, right. So we don't dictate daily consumption, right. We believe in it, we think it's beneficial to distributors and the Company; we think it's more sustainable, more penetrating. But we convinced distributors to do it through influencing their behavior but by showing the success. So the more success people have in the club, the more willing they are to adopt it, okay.

But there are -- they have challenging markets. I mean Europe, certainly Western Europe, it's not -- has been resistant to the club model, although we're starting to see the success in a number of countries. And that's really all it takes, right. So once a market starts to have success with clubs, it gets copied pretty quickly, right, because distributors follow success, right. And it builds on itself, it builds on that momentum. So we're are starting to see in Europe, but it's been a challenge in Europe. Because the Europeans felt it was a cultural model that fit with the Latino business and with the Mexican business, but couldn't work in their community. Big picture, I'm convinced, because this product is sold as a meal in a single serving basis. I'm convinced every culture can get -- can work that way, you just have to find the right acculturation of the model to work in each country. So that will take time.

Where we are in that evolution, Mexico and US Latino business have had those models for a number of years. Outside of that, mostly our markets are still on that growth curve. Korea had 92% growth, right, this is third year of clubs. So most of the other -- most -- so there's a handful of markets that are kind of in the midpoint and then there is 60 markets that are just starting their clubs. Either just starting or hasn't even begun to adopt it, but there is not a one penetration figure globally for clubs, it differs by market but our highest penetration market has a 19 volume point per capita. The general market in the US is at 1. The Latino market is at 10.8. So when we start looking at opportunities, we look at that 4, 5, 6 to 10 volume point per capita ratio that we've achieved in the markets that have successfully adopted clubs and say, well, there is a lot of upside in those other markets where the penetration rate is really low.

Unidentified Audience Member

Yes. And I guess, if you go regionally outside, got it, yes.

John DeSimone - *Herbalife International of America, Inc. - CFO*

I mean, worldwide, our penetration rate in the countries we are in is 0.6 volume points per capita, in the 73 countries that we are in. If you exclude China and India, where the population can skew that data, it's 1.2 volume points per capita worldwide.



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Unidentified Audience Member

If I look over the last three to five years, it seems like a lot of things has been happening, sort of positive momentum, etcetera. What has happened sort of management wise? How has that changed over the last three, five years? Sort of probably describe it a bit.

John DeSimone - *Herbalife International of America, Inc. - CFO*

Okay. So with one exception, the core management team that's here today has been there for a number of years. So, our CEO came in, in 2003. He brought with him new management. Most of those people with the exception of our COO who left in 2008 are still there. They may be in slightly different capacity, so the Head of Sales and Marketing is now the President; the former CFO is now the COO. I've been there for three years in Strategic Planning and so now I'm the CFO. So we still got that same core group of people. We've recognized that in this unique industry, it's important that we have the next layer of management prepared to move up from within. So we have a big herbalization training program, because we want to promote from within. We feel like the skill set to be successful to herbalize might be different than what it might -- different than what some other traditional consumer product companies may need, so we try to promote from within. I hope that answers your question [very soon]. Yes.

Unidentified Audience Member

Just following up on that, how -- when you look at Rexall and [with the other] business?

John DeSimone - *Herbalife International of America, Inc. - CFO*

[17] years ago.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

John DeSimone - *Herbalife International of America, Inc. - CFO*

Both product lines that I worked with in the past are sold through Drugmax, which was a much different channel than direct selling and the skill set to be successful in direct selling, it's a people business, it's a much more people oriented skill set, not an operational oriented skill set, not for my role per se, but when you are talking front end, you have 2.1 million distributors that you are trying to motivate, not only to be successful but to pay properly, to be successful in a way that's sustainable and it penetrates deeply. That skill set to do that successfully is different than when you're trying to sell to Wal-Mart, Kmart, CVS, Walgreens. So it's a unique skill set and we recognize that and that's what we train on.

Chris Ferrara - *Merrill Lynch - Analyst*

There is just one more about the sales growth but I mean obviously last quarter, sales growth was a big number, how do you think about the sustainability of that level of sales growth as you move forward? I mean was that an anomaly or will we see more quarters that look like that?



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John DeSimone - *Herbalife International of America, Inc. - CFO*

Well, Q2 comp was a little easy than Q3 and Q4, but we said on the conference call and we believe that the momentum we've seen in Q2 was real and will continue for the rest of this year, and that's represented in our guidance and that's the number that we stand by as our guidance. So I'm not sure if you're looking for new information or is it up?

Chris Ferrara - *Merrill Lynch - Analyst*

Thank you very much for being here. I appreciate it.

John DeSimone - *Herbalife International of America, Inc. - CFO*

Thank you.

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