

FINAL TRANSCRIPT

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HLF - Herbalife Ltd. at Morgan Stanley Consumer & Retail Conference

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PRESENTATION

Kevin Grundy - *Morgan Stanley & Co., Inc. - Analyst*

Okay, good afternoon, everyone and thank you for joining us for the Morgan Stanley Global Consumer & Retail Conference. My name is Kevin Grundy, and I'm a member of Morgan Stanley's Household Products team. We're very pleased to have with us John DeSimone, Chief Financial Officer at Herbalife.

Herbalife is a global network marketing company that sells weight management, nutrition, and personal care products intended to support a healthy lifestyle. Underlying momentum in Herbalife's business has been strong, and is expected to continue with the company targeting double-digit EPS growth in fiscal 2011.

So with that, I'll turn it over to John.

John DeSimone - *Herbalife Ltd. - CFO*

Thank you, Kevin. With me to my left is Amy Greene, our Vice President of Investor Relations. I'm going to start with the obligatory Safe Harbor statement. I know it's difficult to read, but it's available on our website www.herbalife.com under the Investor Relations icon.

I'm going to start this first slide out with why Herbalife? Why invest in Herbalife? This is a summary. This is what we hope you take away from this meeting today. It starts with the products. Our product addresses three global megatrends that offer us a lot of opportunity for growth in the future and we'll talk about those in a slide or two.

Then we'll move onto new distribution methods that have been developed by our distributors that are accessing more consumers than ever before. So we'll spend some time on that. You'll see that that offers a lot of opportunity for growth, because that's in its early innings in most countries.

We have a strengthening brand; we'll speak a little bit about that. We'll go over our financial performance. We had a very strong third quarter, very strong 2010, and we're projecting a good momentum going into 2011. And then we'll talk about our approach to cash. You should walk away with knowing that net income is a good proxy for free cash at Herbalife and that's a good proxy for what we return to shareholders through dividends and through share repurchase programs.

The three megatrends we talked about; obesity, aging population, and under or unemployment. The one I'll focus the most time on is obesity. You can see at the bottom of this page, the World Health Organization projects 2.3 billion people to be overweight by 2015 and 700 million to be obese. So it's a problem that's expanding.



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This chart -- this is actually a very sad chart, all the way to the right is the obesity rates in the US. And then there's a lot of countries along the way, okay. So, the gray line is obesity rates in 2002, green line obesity rates in 2007. You see the US leads the way, but there's a lot of other countries that are rapidly expanding their obesity rates.

And it's not just obesity, we talk about obesity, because there is a lot of obesity statistics available, but it's overweight in general.

I mean, China, as you can see, China doesn't have a huge obesity problem. Less than 5% of their population is obese, but more than 20% of their adult population is overweight. So, the obesity problem is expanding. And in China that's -- there's almost a billion adults. Actually 24% of that population is overweight, so that's about 220 million, 230 million people in China are overweight. That's more overweight people in China than in the US, even though the problem is not quite as large in China yet.

And that provides good opportunity for Herbalife. It fits right into our sweet spot. We're a nutritional company with a focus on weight management. But weight management for us is more lifestyle, we are not the magic pill company, we're a functional food company. Most of our -- over two-thirds of our products belong to the functional food category. 62% of our products are weight management. Of that 62%, about half is meal replacement shakes. And you'll see what our worldwide market share is on the next slide within the meal replacement category.

Targeted Nutrition, that's more traditional nutritional supplements that represents about 23% of our business. Sports & Energy, it's a fairly new category for us, offers a lot of opportunity and it's very underweighted within our company; it's only 4.6% of sales. Outer Nutrition, that's skin care, that's another opportunity for us that represents just over 4% of net sales. And then, there's other things that we sell like literature and training materials that represent a little over 5% of net sales.

Our market share, this is on a worldwide basis, this is available through Euromonitor. Euromonitor has the meal replacement category at about \$5 billion and Herbalife has 23% of that category around the world, which is almost twice what it was in 2003.

This is how we go to market inside the company and to our distributors. We break our products into subcategories. Heart Health and that's the first doc you see. Each one of our categories are defined by a doctor and supported by a doctor. Dr. Lou Ignarro, the first doctor, is a Nobel Prize winning scientist in the field of nutrition. He develops our Heart Health line and then you can see we have a weight management doctor from UCLA and so forth.

And one of the opportunities for us is to expand into brain health, cognitive health, which is a big category that we are not very well represented in right now, and we are in the process this month of bringing on a doctor, a world-renowned doctor in the brain health area to lead that category for us. So it's an opportunity.

And then, we support our product opportunity with a manufacturing strategy. You'll see on the next slide, we have a strategy called 'seed to feed.' It's a strategy to go vertical in the manufacturing area, an important strategy for us for a lot of reasons. One is compliance with regulatory bodies, right, the regulatory environment is more challenging today than it's been in the past. We want to be a leader in working with governments to develop the right regulations and we can only do that if we're in control of the manufacturing process.

We also want to look at delivering products at the lowest landed cost. This really wasn't a focus of Herbalife in the past, but it's an important strategy for us going forward. It will also reduce transit times, because right now almost all of our products is made in the US. So we sell products in 73 countries. A little bit of European business -- well, not a little, 65% of Europe's business is made in Europe. China's business is made in China. Virtually the rest of the world's product is made in the US, so it's not a very efficient model we have right now from a product standpoint. That will change; we'll talk about the strategy in the next slide.

And then also local product ideation. Our product development has been very US centric, because that's where our products are made. So by globalizing manufacturing, we'll have the ability to launch localized product more effectively and speed to market, of course.



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The strategy is that, that we're -- we've coined the strategy seed to feed. The hierarchy, the reasons why we're doing it is first and foremost protection; we talked about that from a regulatory standpoint. Second is promotion, this is a -- it's really a competitive advantage to be in control of your products in the field. We call it seed to feed, from field to the consumer, right. The process for our products like crops get grown; they have to be extracted. That extracted ingredient is sold to a manufacturer and then is sold to Herbalife.

In the third quarter of last year, we bought a manufacturing facility. We're starting to manufacture our own product. That will ramp up a lot starting now through the next 12 months and when it's done, it will represent around 40% of our worldwide volume. We've also signed a joint venture for an extraction facility, so that the ingredients can be extracted through our process. And what that really does is it gives us complete traceability from all our ingredients and we'll be the only ones in the industry with such capability and it will be a big competitive advantage.

And then there is the profit component. There is a return on the investment. It's not a very capital-intensive business, matter of fact it's low capital. We bought a manufacturing location for \$10 million; we put another \$15 million or so into it. That would be \$25 million, and that will cover our world -- 40% of our worldwide needs. So as we expand manufacturing out of those key regions, it's not going to be tremendously capital intensive. We guide -- we typically guide capital expenditures to be about 3% of net sales, and we think that we can implement the manufacturing strategy within those guidelines, within the 3% of net sales each year.

Spend a moment on this one. So we talked about product, manufacturing as a support to product, and now we're going to talk about the new distribution method. How many people have been to clubs, just so I can get a sense for how familiar people are with nutrition clubs? Not that many. Nutrition club, well, I'll get that in the next slide. Let me start by saying most -- our distributors have come up with multiple ways to access new consumers, okay, and we're accessing new consumers greater today than we have in the past.

One of the key methods to do that is the one in the upper left hand corner, which is clubs, the nutrition clubs and I've got a few slides on nutrition clubs. Basically, nutrition clubs offers a consumer the ability to buy just the daily need they have for nutrition at a daily price point.

So, as opposed to buying in bulk -- as most direct sellers have to sell in bulk, they sell to a consumer a month's supply of product. A consumer can go into nutrition club that is operated by a distributor and buy just that day's worth of nutrition at \$3 or \$4 a day. And far more people have the ability to afford \$3 or \$4 a day than they have to take \$100 out of their pocket at one point in time and purchase the product. So that's been able to reach a lot more consumers than traditional direct selling.

So then traditional, this is the medium to high priced purchases done infrequently. It's a high customer acquisition costs and it's a very inefficient model for distributors. Distributors have to call their customers once a month, twice a month. It makes compliance from the consumer side difficult and it's very inefficient from the distributor standpoint.

Whereas in daily consumption, a distributor opens up a nutrition club, consumers are now coming to the distributor. So, it's very efficient, you can service a lot of customers at once, they are coming daily, so it's a lot of people buying a little bit at a time instead of few people buying a lot at a time. And it's a very sticky business model and retention rates for distributors operating clubs is much higher than traditional or distributors doing their traditional business model.

And this puts a little perspective around the opportunity that exists from daily consumption from clubs. Our top five markets are in this chart, if I can set it up for a moment. The gray bars are the penetration rates in 2003 and the green bars are the penetration rates last year for these key markets. Penetration is measured in volume points per capita, it's unit volume basically. And Mexico, in 2003 before the advent of clubs, had 1.2 volume points per capita. And so if Mexico has got 100 million people, they get 120 million volume points per year.



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That's gone up by a factor of four since the advent of daily consumption. The US Latino market, which adopted the model Mexico was using, went up by a factor of five. Taiwan is factor of three, you can see Korea is almost four times, and Brazil is in the really early stages of the club model, but they've doubled. And if you look at our 73 countries, and you can bracket them into really three categories, is the inception period for clubs, which is on this page. In the first two years of a market opening up clubs, they're trying to figure out how to make it work. There's a learning curve and it takes -- in almost every market, it has taken about two years. Once clubs become successful, they move into their expansion phase. That's the inflection point, that's where rapid growth happens, that's where the clubs duplicate.

And then you get to the third phase, which is the ongoing enhancement. And that's where really Mexico is. Mexico started clubs in 2003. Great growth in Mexico still, but that growth is not coming from opening new clubs. It's coming from pushing more volume through the club that exists today. And Mexico is really the only country that's in that enhancement phase. You can say US Latino is probably pretty close, but most of our 73 countries are in that first bucket. They're just learning how to do clubs. We are in a very early innings of this model and this has been a model that has driven a majority of our growth.

It's been a distribution change that has allowed distributors to access more consumers than traditional direct selling would ever allow. The traditional direct selling just skims the surface of the market, whereas clubs go very deep.

Key initiatives, for those who were at the Investor Day a couple weeks ago, we talked a lot about this by region. First objective is to increase -- in every market, increase the addressable audience. We do that by expanding consumer access points. Clubs is, again, the single best way. It's not the only way. There's a lot of other methods that work in different markets. But clubs expand the access points greater than any other method we have. That drives distributor engagement because we grow by having distributors that are out there actively engaged in the business. They're engaged, because they see the opportunity clubs offer.

And then we look at our distributor base. This is actually a really important point that probably we don't talk about enough, but we have a distributor database that allows us to see performance by distributor. It's a huge database, lots of information. We are able to look for outliers, people that are performing really well, and find out why they are performing well and if it's a good business model where we focus on globalizing those ideas.

So, we don't always have to come up with the ideas, we look for distributors who are entrepreneurs that come up with effective business models. We see it in the results and then we globalize it, and that's really helped clubs expanded. Clubs was a concept developed by a distributor, and when we saw that that distributor's business growing dramatically, we went and found out why and then we were able to globalize that idea.

And then building a global brand, I think, we are more recognizable today than we were five years ago. We found branding through sport is probably the best opportunity for Herbalife. We do it through soccer quite a bit because soccer is global and we are global. You can see in the upper left-hand corner, we sponsor FC Barcelona and Lionel Messi, who is the Michael Jordan of Soccer. He is a Herbalife sponsored athlete.

And on the right, it's Beckham and the Galaxy, who unfortunately lost this week in the semifinals. Our CEO's favorite picture is the bottom left. It's two hockey teams, one sponsored by Herbalife and one sponsored by McDonald's.

You actually note, Herbalife won that game, but it's interesting because we view McDonald's as our competitor, right, because clubs sell Herbalife product as a meal, all right? That's really the way we should go, and you get one meal a time and that's what McDonald's does. But McDonald's does it at a slightly higher price point and certainly a lot worse nutrition. So, we try to go to consumers or have our distributors go to consumers that's trying to see one meal a day from fast food, because then you got a consumer, who is already spending money instead of looking for supplemental spending. It's a trade-off, stop spending money in McDonald's, come to Herbalife, you still get your meal, it's less money and you feel better and you lose weight.

A moment on the financials, Q3 results, volume results were up 13.5% of a much more difficult comp in Q2. Very broad based, you can see it's divided into six regions, every region experienced growth. Even the US was almost 9% growth, difficult to find



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another direct seller who is having such success in the US. And the US is our oldest market. It's 30 years old. It's a testament to the opportunity from daily consumption, because what daily consumption has done in the US is it went to consumers who in the past couldn't participate in the product offering, because they couldn't afford a monthly price point and that's what's spreading around the world.

Distributor engagement; we introduced this metric last year. Most direct sellers look at a similar metric, which is activity level of -- we call them sales leaders, which are our senior distributors, how many are actively ordering each month? And in the third quarter, that number was 11.8% higher than it was a year ago. That means we have more distributors who are engaged in the business actively selling the product than we did a year ago.

This is a good metric for quality of distributor, all right. So, it's not just somebody who is motivated one day to sign up and then 10 days later, drops out. This is people who are -- will come in and they continue to reorder. So it's an important metric for us and it's been up all year.

Another interesting point that daily consumption provided for Herbalife that's unique amongst our direct selling peers is that our growth is almost equal between established markets and emerging markets. I mean established markets represent 48% of our net sales, whereas our volume and emerging represent 52%. So almost the same and they are both up double-digits. So the opportunity is more broad-based than just emerging markets.

Net sales, net sales increased 15% in Q3. On a year-to-date basis -- year-to-date, we are up 17.8%. On a constant currency basis year-to-date, we are up 16.7%. We put constant currency on most of our slides and we do a constant currency P&L on our website, because we are in 73 countries and 80% of our business comes from outside the US. So we try to give investors a perspective as to what our results would be if currency rates hadn't changed. So not a meaningful impact in currency in Q3 or in a year-to-date period.

And then from an earnings -- from EPS standpoint, same thing, we had 37.7% increase in Q3, from \$0.85 per share last year to \$1.17. On a constant currency basis, we would have been \$1.22. And year-to-date period, we are up over 50% on a reported basis. On a constant currency basis, we would've been up 47% over last year from an earnings standpoint.

Guidance, this represents guidance for the fourth quarter and full year. I'll talk just about the full year. Last year, our earnings per share on the bottom -- last box on the bottom was \$3.28. Our guidance for this year is \$4.54 to \$4.58. That's on volume growth of 12.5% to 13.5% and net sales growth of 16.5% to 17%. And that's -- that momentum that we are seeing this year, we are expecting to continue into next year. This is the guidance we provided last month at Investor Day for 2011.

So volume growth is 8% to 10%. That's coming off a very difficult comp, because we had great results this year. So we're still looking at high single to low double-digit growth next year, net sales to be slightly higher than our volume growth and the EPS to be \$5 to \$5.25, and that's our initial guidance.

Please turn to cash flow for a second. Again I started out with this. Net income is a good proxy for free cash in Herbalife. You can see it's almost identical since 2007 and we had some big projects from a capital standpoint that are included in those numbers. We put Oracle in for \$100 million two years ago and we've still have been able to over a three-year period have net income before free cash.

And then, we take that free cash and we return it to investors through dividend and through a buyback. Since 2007, which was the inception of both our dividend program and our buyback program, we've returned over \$860 million to investors -- about \$860 million, 102% of net income.

So we generate a lot of net income, that translates to cash, and then we get that back to investors, and we think that accelerates the return for investors and takes a little bit of risk out of the investment. And then we have -- our board authorized an additional



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\$1 billion buyback this year that expires at the end of 2014. Of that billion, we have about \$825 million left. So gauge it at around \$200 million a year we -- I believe at this point that we will execute that buyback.

This is a new slide we added for this conference, which just looks at historical volume growth. And over the last seven years, we've had a compounded annual growth rate of 11.4%. So it's been very sustainable growth and we expect it to continue. One of the things we talked about at Investor Day is we have a goal, an aspirational goal, in our guidance that we want to triple the Company in the next 10 years. So that implies low double-digit growth.

We think it's achievable. It's achievable because of the growth that we've experienced in the last five years from daily consumption in markets that adopted club model. When we apply those rates to countries that are just now adopting clubs, then we see a big opportunity.

And I'll end with where I started, which is that I hope you take away, this is obviously just a presentation to hopefully get some investors interested in the company to learn more. But again, we have a product, we have products that address a real need and it's a growing need. So our products are relevant. We have a distribution model, a new distribution model developed by distributors that reaches more consumers and that's just starting to expand out globally from where it was developed.

We have a great brand, but it's getting stronger. Our financial results have been strong and we have a great disciplined approach to returning cash to shareholders. So that's hopefully the summary takeaway for investors today.

Looks like we have seven minutes left. Let's do some questions, yes.

QUESTIONS AND ANSWERS

Unidentified Participant

(inaudible) Sorry, would you please describe visually what these clubs are like, so we can get a better -- like people come to someone's house or how does it work? And the second question is, you mentioned that most of the growth is coming from these new clubs and could you help quantify that?

John DeSimone - Herbalife Ltd. - CFO

Sure. So, I'll explain clubs to you, but let me start by saying I can't do justice, I can't explain it well enough for you to get a real feel for it. So if you contact Amy, we'll get you some addresses and that's really the best way for you to understand how clubs operate. But it started in somebody's home. It was started by a distributor. Again, our distributors are entrepreneurs, right, and they come up with good ideas. And we had a professor in Mexico who saw the need for our product in Mexico, but realized that most consumers in Mexico couldn't afford that monthly price point.

So he came up with the club concept. He opened -- started in his home, he opened up his home. People could pay a few pesos to come in and they would get three products; a meal replacement shakes, this is a meal replacement shake and tea, as we sell a lot of teas for caffeine, and then an herbal drink for energy -- excuse me, for digestion.

That's out of the club model. That drove tremendous growth for a number of years. It was a learning experience for us, because -- as a company, because there is a slightly different infrastructure needed for clubs, because just like the distributors are selling a lot of people a little bit of product, that's what we start doing now too. So we have more distribution points than we need as a company.



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But it started in somebody's home, it grew into Latin America -- excuse me, the Latino population in America, because it's a very similar culture. But within Herbalife's family of companies, it didn't grow beyond those two, because our distributors believed it was a cultural model that could work with the Latin culture, but couldn't work in most environments where people aren't comfortable inviting people to their home. It's now evolved to where most of our clubs around the world are commercial clubs.

Same concept as the home club, except a small number of distributors would get together and open up a commercial location to operate the same way the home club did, except it's in a commercial location. When you go in, it's a very social atmosphere, it's a private club. So it's your club -- if you want to come for a meal, you pay to get in, it's your club, you have before and after pictures on the wall, it's one of the reasons why it is sticky is if you lose weight, which again that's the objective of a lot of our products, it's a very objective measurement, people know you lost weight, you might have two or three friends that you've invited to the club. Because they saw you lose weight, they want to do the same thing and it becomes a social event.

You can go to a club in New York and you'll find the same 20 moms drop the kids out to school and go to the club in the morning. It becomes a very sticky model. It works better for distributors too because they have a forced discipline, distributor has a job, they have to wake up in the morning and go open up the door. So it helps them be successful.

Amy Greene - Herbalife Ltd. - VP, IR

There's a company advert I can show you. I've got some pictures on my iPad and we can go through some Asians and some New York ones.

Unidentified Participant

(Inaudible question - microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Was that a geographical question?

Unidentified Participant

(Inaudible question - microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Well, the margins are a little different, but nothing meaningful.

Unidentified Participant

(Inaudible question - microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

Nothing meaningful that you would need to model in, but they are just some more (inaudible). The only meaningful difference between China and it's more an accounting difference because of the way we do business in China, accounting technical, but in China, distributors are employees. So the waterfall between gross and net sales in every other country, you don't see it. We just report the net number.



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If there's any distributor discount, it's in the waterfall and it's not reported. In China, gross sales are net sales, now waterfall falls into SG&A. So if you make the same profit per volume point in China as you make in every other country, you will have a high denominator, because -- so it will look like lower margin, but it's effectively the same profit per volume, just accounted for differently. Yes?

Unidentified Participant

(Inaudible question - microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

It's a distributor, they are independent, the clubs are owned and operated by distributors and it's their inventory.

Unidentified Participant

Could you discuss your model in China and how you had adopted -- adapted, excuse me, to the regulatory changes there a couple years ago?

John DeSimone - Herbalife Ltd. - CFO

Sure. Yes, so China is a different business model, although clubs help with that. So I'll start first by saying in China, distributors have to become employees or had to become employees in our model, right. With clubs, there is new model. So I'll start with the old model. They had to become employees and they had to sell from fixed locations that were owned by the Company. So the Company opened up 70 -- we've opened up 90. We have 70 retail stores now in China and those are fixed locations and you are an employee. If you want to sell Herbalife product, you have to take your customer to the store and sell out of that fixed location.

With clubs, clubs are in effect a fixed location. So, a distributor now can open their own fixed location, become a sole proprietor which is what it's called in China, and actually own their own business and be a distributor within Herbalife and have a fixed location that's theirs. It actually fits really well into what the Chinese government is trying to accomplish, right, that's what they want.

They want to know what people are doing, but they also want to know where people are doing it. So, clubs actually help a lot in China. China is in the early stages of figuring clubs out. There is about 800 clubs in China right now, nutrition clubs, and they start to figure out, they are still definitely in an inception phase though, so that was three phases and they haven't starting duplicating in a big way yet. Yes?

Unidentified Participant

(Inaudible question - microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

What kind of margin?



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Unidentified Participant

(Inaudible question - microphone inaccessible)

John DeSimone - Herbalife Ltd. - CFO

So we are -- there is some leverage in our business circle. We have a high variable cost base, right, and pretty well fixed cost base. So there is not a ton of leverage, but we think over the next three to five years on a gross profit line from the vertical integration strategy, there's a 100 basis point to 200 basis point of opportunity there. And when you get into SG&A, we haven't guided SG&A specifically, but we give enough guidance that you can probably back into how much of our SG&A is fixed. And in the fixed component of SG&A, we look to grow it half the rate of sales. So, sales are growing 8% and then we look at fixed SG&A growth of 4%.

Unidentified Participant

One looks at this 10-year plan, how much emerging will be in 10 years?

John DeSimone - Herbalife Ltd. - CFO

How much what?

Unidentified Participant

Emerging.

John DeSimone - Herbalife Ltd. - CFO

Emerging?

Unidentified Participant

In countries, yes.

John DeSimone - Herbalife Ltd. - CFO

How much emerging markets will...

Unidentified Participant

Yes (inaudible).

John DeSimone - Herbalife Ltd. - CFO

So, we haven't disclosed our build-up by country and we generally we don't guide. But, I can tell you, so where are the big opportunities over the next 10 years, right, US general market, right. So the volume points per capita in the Latino market is about 12 volume points per capita, right. In the non-Latino, which is every other language in the US combines to about one



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volume point per capita, right. So the average is two change. The general market in the US is now trying to adopt the club model that the Latino started in the US a few years ago. So there is a big opportunity in the 300 million people that haven't got into clubs yet in the US. There's big opportunity in Brazil, of course, China and India.

India, we've had now six straight quarters of high double, low triple-digit growth coming from clubs. Why? Because in India, people are used to living by the day, right, that's how they buy product. I mean they buy single serving cigarettes sometimes. So the club model looks better in India, where the traditional direct selling wouldn't. So certainly a lot of Asian opportunity, Eastern Europe opportunity, and then there's some uncapped opportunities in countries we are not in. You saw that the second highest obesity rate in the world was in Egypt and we're not in Egypt right now.

Now, Egypt would require a model change for us, but it is on the list of something we want to open some day. We don't talk about timelines on opening new countries, but the countries we're in today represents 75% of the world's population. There's still a chunk of the remaining 25 that we think we can get into.

Amy Greene - Herbalife Ltd. - VP, IR

And importantly, I think one of the things, when we look at daily consumption across the board for us, we think it accounts for right around a third of our current volume. So, when you look at what innings might we be in, we still think we're very early in the game of nutrition clubs or daily consumption in whatever national iteration is rolling out through the 74 markets we are in right now.

John DeSimone - Herbalife Ltd. - CFO

Yes.

Unidentified Participant

Can you paint a bullish picture for the Company, your secular growth trend, vertically integrating, generate a lot of cash, return to shareholders. I was wondering if you could argue the other end of it. What would prevent you, what are the there big risk maybe that would prevent you from meeting the low-end of your 2011 guidance and what would you, if you give us the risks to the Company, that would prevent the Company from tripling in 10 years?

Kevin Grundy - Morgan Stanley & Co., Inc. - Analyst

So, our biggest risk is distributor engagement, okay. Now, we can dig into what that means, right, but we broke this company. We create a brand, we soften the brand to make it easier for our distributors to sell, but we are still a push business, right, we are not ready to pull right now. So, distributor engagement is how we grow. How distributors engage is they need to feel like they have an opportunity, so the risk would be regulatory, right, and that's why the seed to feed strategy is first and foremost a protection strategy. That gives us the ability to be proactive on the regulatory side. That's probably the biggest risk we have.

We are a supplement company, but we are really a functional food company. But we still fall -- and people's impression of Herbalife is that we are a supplement company and that puts us in with the supplement regulators, but we are working on that. We've hired -- interestingly, this is a really good hire for us and I guess we are running out of time, so that was the last question, but is Dr. Bill Frankos who ran the Dietary Supplement and -- with the FDA for the last 10 years now works for Herbalife. So we hired him, right.

So we recognized that's the risk and we're addressing it to seed to feed into a proactive Regulatory Affairs department. So I think that's the last question, but we have a breakout room. Hope you can accompany us. Thank you.



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