

FINAL TRANSCRIPT

Thomson StreetEventsSM

**HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin'
Consumer MAC: Management Access Conference**

Event Date/Time: Dec. 07, 2010 / 6:35PM GMT



Dec. 07. 2010 / 6:35PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin' Consumer MAC: Management Access Conference

CORPORATE PARTICIPANTS

John DeSimone
Herbalife Ltd. - CFO

PRESENTATION

Unidentified Participant

Good morning, everyone. We'll get started on our next presentation. It's a company I've had the pleasure of working with for a number of years. Presenting on behalf of the Company is the Chief Financial Officer, John DeSimone, as well as Amy Greene, Vice President of Investor Relations.

John?

John DeSimone - *Herbalife Ltd. - CFO*

Can you just give me a little five-minute signal? How are we all doing? On the screen is the Safe Harbor statement. This is also available on our website at www.herbalife.com. With me today is Amy Greene, our Vice President of Investor Relations.

I'll start off with a summary of Why Herbalife? First, we'll spend a few slides talking about the product line and what the product line represents and how it takes advantage of three megatrends that's going on in the world today. Then we'll talk about how the distribution model has evolved.

Within Herbalife, that creates greater access, greater accessibility both from distributors to the Company, both from the consumer to the distributor [within the] more important impact. I'll talk about our strengthening brand and what we've -- where we were and where we are today and where we're going.

Then we'll do a little bit about our financial performance, which we've had a very strong series of quarters in a row now. And then our return to shareholders, our accelerated approach to returning money to shareholders.

You'll see that at the end of the presentation that we have slide that looks at net income and cash flow for the last three years and you'll see cash flow -- net income is a good proxy for cash flow. They almost equal each other. And that is about the amount that we return to shareholders through dividend and through share repurchase.

Three megatrends we talked about and the opening is obesity. I have a slide on the next page that talks about the obesity rates in various countries. You'll see it's actually a pretty bad slide, but that's -- it's an opportunity that's worsening in the world. It's got high visibility, high awareness today and our product line addresses it directly, anti-aging products, because it's an aging population.

And then the -- I'd say more underemployment and unemployment people looking for part-time income fits well into the business opportunity that Herbalife brings to the market. There's a stat on the bottom, it says the World Health Organization projects that by 2015 there'll be 2.3 billion adults that will be overweight and 700 million will be obese. So it's a big problem.

And this chart again, this is the chart I said -- it's a little sad, because if you look all the way to the right, it's tough -- difficult to see, but the most obese country in the world is the U.S. and the green bar is the obesity rates in 2007, the gray bars are the obesity rates in 2002 for a number of countries.

You can see all the way on the far left is China, China was under 5% obesity rate, but interestingly it's -- slightly more than 20% of the adult population in China is overweight. So they're not obese, but there -- as Western diets have moved east, the obesity



Dec. 07. 2010 / 6:35PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin' Consumer MAC: Management Access Conference

rates are starting to increase. It's one of the fastest growth rates in obesity in the world is in China and 20% of -- there's an adult population over 900 million people in China. So 20% of that is almost 200 million overweight people in China, even though it's not as big of a problem as it is in the U.S.

And this talks a little bit about our product line and where we fit in. About -- just under two-thirds of our business is in Weight Management. It's more functional food. I think that's an important concept for people who are new to the story. We're not the magic pill, don't take a pill, don't eat for 30 days and lose weight. We're more of a lifestyle company.

About half of that Weight Management category is in the meal replacement shakes, which I don't know if you were able to try one today. We had the hotel make some shakes. I don't think they were the best shakes, they were little -- and it was a little watery, but just to give you a little bit of a taste of what Herbalife is about. Those shakes represent about a 30% of our business around the world. In addition to Weight Management, Targeted Nutrition is your traditional dietary supplement category for the most part.

Sports and Energy, Sports and Energy is a very small category for us, but it's a big branding opportunity. We spend quite a bit of branding dollars in the Sports category. And then there is personal care, which is another opportunity, we're very under-represented in the, we call it Outer Nutrition, that's skin care, shampoos, things like that.

This slide looks at just meal replacement category, this is around the world. This is statistics that are in your monitor. The meal replacement category is almost a \$5 billion category in the world and Herbalife represents 23% market share in that category, up from 12 six years earlier, so we've doubled our market share in the last six years.

So a little bit of how we go to market. So you've seen our classification of products, but how we go to market is each of these categories are broken into sub-categories that are sponsored by world-renowned doctors.

Doctor -- now, the first doctor on the screen in the heart health line, he is a Nobel prize winning scientist who develops products for Herbalife. So we go to market through our distributors with doctors behind each category.

One of the categories that we're not very strong in right now, but we expect to be is in the brain category. We're working with a well-renowned scientist in that category trying to sign him up to develop product for us. Hopefully [we're going to close] that deal shortly.

Manufacturing strategy, we announced this strategy about a year ago to vertically integrate our business. It's a protection strategy first. We're in a regulated business and we felt more comfortable long term if we owned the supply chain from beginning to end. We actually point at seed to feed from plants to the consumer and part of that process was buying a manufacturing facility in California.

We bought that in third quarter of last year. It's being ramped up now and retrofitted. It's a very low capital project. We bought the facility for \$10 million and we'll put another \$15 million plus into it. And with that investment, we can handle [about] 40% of our worldwide Inner Nutrition product needs. That is part of a bigger strategy. The bigger strategy we call the seed to feed, [stock to] field.

Fields if you can picture, you have plants that grow, then you have to extract the ingredients out of the plants. We have signed a joint venture to open an extraction facility in China. The Chinese government broke ground on that facility last month or two months ago. They're building the facility for us to lease. That facility will be up in six to nine months, will be operating.

So we'll be buying our crops from fields that we know where the crops have come from, we'll extract them to our extraction process and sell them to both our factory or to any other factory that's making our products.



Dec. 07. 2010 / 6:35PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin' Consumer MAC: Management Access Conference

So we'll be in complete control of our supply chain, which we think again from a protection standpoint, regulatory standpoint, government relation standpoint, big competitive advantage. But also from a marketing standpoint, our distributors will activate around this concept of controlling supply chain, seed to feed and we think we will be the only ones in the industry with this competitive advantage. We think it's very unique.

And we talked a little bit on the opening page about the change in the distribution model, that's really driven a lot of our growth. It's a series of different business models that our distributors use to go to the consumers.

You can see the consumer in the center of this slide. That upper left-hand box, clubs and offices, that's been the primary driver of our growth. I don't know how many people have been to nutrition clubs. But if you're interested in story and you hadn't been to a club and please see Amy because it's a great opportunity to see what this new model is about.

But effectively our club is a gathering point for a distributor to invite their consumers to come in daily and buy just the product they need for that day. Okay. It's similar to you going to Starbucks to buy a cup of coffee.

So instead of buying a month's supply, a big container, which is historically how direct selling sales product and very few people can take \$100 out of their pocket today and buy a product, where a lot of people can spend \$2 or \$3 or \$4 a day to buy a product. And that's dramatically increased the addressable population for our product.

There's a lot of other models that work that I'm not going to spend a lot of time on today. But one of the benefits -- I think one of the strengths of Herbalife has been recognized that these models are developed by distributors and that we find those models that are very successful and globalize them.

This next chart spends a little bit more time on clubs and how clubs operate. So again traditional direct selling, meeting the high price purchases done very infrequently, right. So no matter what kind of model you rent for whichever kind of direct selling company you are working for, you've found customers that would buy product once a month, once every two weeks whatever may be or you hold a party, invite people too. It's not very efficient.

And it has a high acquisition cost for consumers and it's a high dropout rate in that model whereas that daily consumption model instead of finding a few people to buy a lot, you're finding a lot of people to buy a little and that's been much stickier, penetrates much deeper because far more people can afford to participate in the product offering under that model and under the monthly price point model.

Much lower consumer turnover or let's say higher retention rates and it's a much more efficient model because customers are now coming to the distributor instead of the other way around. So it allows a distributor to service many more customers than they could under the traditional direct selling model.

And this slide tries to put some numbers around the opportunity that clubs bring to a market. And I'm going to set this up for a moment. So the gray bars are the penetration rates in 2003 in our top markets and penetration is measured by volume per capita, volume points, every product has a volume point. Think of it as basically a retail dollar.

In Mexico, the volume point per capita was 1.2 in 2003. It went up by a factor of four in 2009 because of clubs, why because the traditional model is very broad in the number of consumers that can attract whereas the daily model is very deep.

U.S. Latino market, they adopted -- Mexico started clubs in 2003, it spread to the U.S. Latin market in 2006. In 2006 we had an inflection point in the U.S. Latino market and it has since gone from a volume point per capita of 2.3 up to 11.6.

Taiwan started a year later with clubs and it went from 2.9 to 8.7, Korea was a year later than that and it went up by a factor of almost four. Brazil is a little earlier in its adoption of clubs, but it's gone up by a factor of two. And the Company, as you can see, has a very low penetration rate in the countries that it operates in.



Dec. 07. 2010 / 6:35PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin' Consumer MAC: Management Access Conference

So there's a huge opportunity because this club model is in most cases in that first box you see on this slide. So there is a -- these are somewhat soft timeframes, but it's about a two-year inception period for a market to adopt clubs.

And what I mean by that is you can find distributors who are very interested in what worked in Mexico or what worked in the U.S. Latin market and they take it back to Brazil, for example, and they tried clubs in Brazil and it failed at first and it had to be -- the model had to be adapted to the local community and the culture within Brazil.

Once they find the model that works that just offshoot of the clubs that they went and visited, we start duplicating clubs and that duplication happens usually around the year three. And that's when we get that inflection point, that great growth, that duplication of clubs from 800 to 5,000 clubs.

Mexico actually is probably the furthest along and it's more in the enhancement stage, which means it had -- Mexico has 30,000 clubs, right. Those clubs are mostly home clubs, they operate out of people's homes with 30,000 locations. The number of locations in Mexico are not increasing right now, but the productivity of each club is now increasing, so they're in the enhancement stage.

U.S. Latino market somewhere between expansion enhancement. The other market I showed on the last slide, Taiwan, Korea, Brazil in the expansion phase although Brazil is maybe a little further left toward the inception phase, most of our other markets just in the inception phase.

They are very early on in this in what we see as this opportunity to reach deeper into each market. So there's still a lot of growth, we think anyway we believe available to us from the adoption of clubs in many other markets.

So I talked a little bit about this. Our strategy increase the addressable audience, expand the consumer access point, that's what clubs do, they make many more access points to consumers to find Herbalife product. We grow -- we're a push business. We don't advertise product, we brand a lot, but we don't advertise. We grow through distributor engagement and we drive distributor engagements by showing them business models that are working.

And then again what I think Herbalife does best is it shares its best practices. It finds models that works in one region and it globalizes them. And then branding, I think seven, eight years ago you wouldn't find Herbalife on anything. We actually didn't allow distributors to use the name Herbalife. Since that point there's been a new management team, Michael Johnson came in who is a very branded-oriented executive.

We now sponsor 150 different athletes and teams around the world. We actually think that the distributor base, 2 million distributors is actually an army of brand ambassadors that we have to harness, where in the past they weren't allowed to use Herbalife name. Now, we give them access to all the logos that they need so they can become brand ambassadors for us.

So it's 2 million distributors if you can get 25% of them, 500,000 of them to brand one hour a week and put a value to that, it's like \$1 billion of branding a year to harnessing that branding opportunity. And that's a direction we're going in.

And then image is important to Herbalife. Again, we're a different company today than we were 10 years ago. And we have 58 Casa Herbalife's around the world, that's part of our image. We provide nutrition to underprivileged children in those Casa Herbalife locations.

Financial update, this is Q3 results, where fiscal year is a calendar year, so this was as of the end of September we announced at the end of October, beginning in November, around the world our volume -- this is a volume chart, we are up 13.5% in volume.

Every region that we operate in had increased in the third quarter, very strong growth, very broad-based growth. North America was up 8.6%. Mexico was up 16%. Again, Mexico was the genesis of clubs and we're still having great growth in Mexico.



Dec. 07. 2010 / 6:35PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin' Consumer MAC: Management Access Conference

Asia Pacific led by Korea and Taiwan was up almost 30%, South and Central America was up 5%. EMEA, which is Europe, Middle East, Africa, was up 5% and then China was up. China is still a fairly new market for us, but it was up 22%, low base 39 million volume points, but good growth.

This is a new metric that we launched about a year ago, about four quarters ago and it's consistent with what other direct sellers would launch, which is the activity level of our sales leaders. Activity levels mean how many people are ordering every month, is it going up, it's a measure of engagement, it's a measure of the quality of a sales leader, not just how many you're getting into the business, but how many are working the business.

And you can see over the last four quarters we've had high single and low double-digit growth in the number of people that are actively ordering product every month from us. So it's a great measurement. We think it's a good -- it's a not great -- we did a regression analysis on a bunch of single statistics, this is probably the best correlated statistic to growth although not a great statistic, but the best one we have available.

I think just another interesting slide that separates us from our peer group. Our growth you can see the -- on the left side of this pie chart is our growth that's coming from established markets and it's not our established markets. Established market is defined by the World Bank and our growth coming from emerging markets.

You see a lot of -- a lot of our peer group is getting that growth from emerging markets. We're seeing it from both sets and the reason is we're addressing a whole new population set in the established markets that couldn't participate in the monthly program that can now participate in the daily program. So it's increasing the access in those established markets, just driving growth.

This is our net sales, third quarter is on the left, year-to-date is on the right. There's three bars, it's last year, this year and this year adjusted for currency because 80% of our business is done outside the U.S., so we like to take the impact of currency out, so that investors can see the performance absent currency.

We had sales growth, went from \$600 million -- \$600 million to \$688 million, and on constant currency basis growth would have been slightly higher. So it was 15% on a reported basis, little higher on a currency adjusted basis and very little currency impact of the full year number also.

EPS, under the same structure, third quarter last year we earned \$0.85 per share. This quarter was \$1.17 and in constant currency basis it would have been \$1.22, and year-to-date it was \$2.31 versus \$3.47 was what we reported through nine months this year and it would have been \$3.39 on a constant currency basis.

And guidance, this guidance is what we provided in our press release on November 1, we had four quarter is on the left, full year is on the right, volume growth of 11% to 13% for the quarter, on a full year of 12.5% to 13.5%, net sales of mid-teens. We're in a lot of countries with a lot of different effective tax rates, so we try to guide tax rate that people that are modeling in the business, that's why that's on there.

CapEx is relatively -- we're not a very capital-intensive business. [We think the] model above 3% of net sales on an annual basis is our capital expenditure spend. And EPS, our EPS range for Q4 was \$1.07 to \$1.11 versus \$0.98 last year and for the full year \$4.54 to \$4.58 versus \$3.28 last year.

And then, we also gave guidance for 2011. Again as of November 1, we're looking at volume growth of 8% to 10%, so high single, low double-digit growth. Volume slightly higher than that, the difference is price increase in currency. Effective tax rate, about the same next year as we're forecasting for this year. CapEx is at 3% of net sales, so it's \$80 million to \$90 million and EPS, \$5 a share to \$5.25 a share next year.



Dec. 07. 2010 / 6:35PM, HLF - Herbalife Ltd. at Wedbush Morgan Securities California Dreamin' Consumer MAC: Management Access Conference

I started out on the summary slides talking about our strong cash flow. You can see since -- there's two rows on here, one is nine months this year and one is cumulative since 2007, you can see net income and free cash flow almost identical, right. So net income is a good proxy for free cash flow in our business.

And then here, you can see that on that green section of this chart, our net income is about what we return to shareholders through dividend, through share repurchase. We have a dividend of \$1 a share per year, \$0.25 a quarter right now. We have said that we have a goal of maintaining 1.5% to 2% yield.

The difference in our free cash versus the dividend will go to share buyback. We have \$1 billion program authorized right now. We have \$825 million remaining as of the end of the third quarter. Was that? So the \$1 billion buyback has a five-year expiration that ends December 2014.

And we have very little debt, and we have the ability to -- so our debt is due in this two tranches, 2012, 2013, we can pay it off if we need to, which is a good position to be in, not that we would pay it off, but just -- it's a very safe position to be in. And then, this is just an interesting slide that we've recently added at the presentation, which just shows pretty sustainable growth over the last seven years. I mean we had a little bit of deceleration in 2009 as most people did, but it seems like we're back on track to where we were prior to the third quarter of 2008 economic crash I guess.

And this ends -- I end this presentation with the same slide I started, which is what the key points we would like you to walk away with. Our products are relevant. They address a real need. If the need that's increasing, it's going to get worse, not better, which means more opportunity for Herbalife and our product.

New distribution is a key element of driving our growth and it's only been implemented in a handful of countries. There's still a number of countries left. We have a brand that's strong, but strengthening. We have good financial performance and we have a very shareholder-friendly approach to our excess cash, which is we return it to shareholders. We're not a big M&A company.

And that is the summary. I'm not sure how much time we have for Q&A. Seven minutes? Questions? Okay, great. Well, again if you're interested at all in the story and you're unfamiliar with clubs, please see Amy. We can get you some addresses, you can go to clubs that will help, I think just to help you tangibly understand the opportunity that clubs provide the Company, much better than I could do here at the podium.

Great. Thank you.

DISCLAIMER

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

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

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

©2010, Thomson Reuters. All Rights Reserved.

