

HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Alan Quan
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5:30 p.m. ET

Operator: This is conference # 97879694.

Operator: Good afternoon, and thank you for joining the First Quarter 2017 Earnings Conference Call for Herbalife Ltd.

On the call today is Michael Johnson, the company's Chairman and CEO; Richard Goudis, the company's COO; John DeSimone, the company's CFO; and Alan Quan, the company's Vice President, Investor Relations.

I would now like to turn the call over to Alan Quan to read the company's safe harbor language.

Alan Quan: Before we begin, as a reminder, during this conference call, comments may be made that include some forward-looking statements. These statements involve risks and uncertainty, and as you know, actual results may differ materially from those discussed or anticipated.

We encourage you to refer to today's earnings release and our SEC filings for a complete discussion of risks associated with these forward-looking statements in our business. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any future events or circumstances or to reflect the occurrence of unanticipated events, except as required by law.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial

statements prepared in accordance with U.S. generally accepted accounting principles referred to by the Securities and Exchange Commission as non-GAAP financial measures.

We believe that these non-GAAP financial measures assist management and investors in evaluating our performance and preparing period-to-period results of operations in a more meaningful and consistent manner, as discussed in greater detail in the supplemental schedules to our earnings release.

Please refer to the Investor Relations section of our website, herbalife.com, to find our press release for this quarter, which contains a reconciliation of these measures. Additionally, when management makes reference to volumes during this conference call, they are referring to volume points.

I'll now turn the call over to our Chairman and CEO, Michael Johnson.

Michael O. Johnson: Good afternoon, everyone. Thank you for joining our First Quarter 2017 Earnings Call. We started the year with better-than-expected financial performance on both the top and bottom line. While we are pleased with our results this quarter, we remain cautiously optimistic with our outlook for the full year.

In the second quarter, we have to overcome difficult comparisons to last year in the U.S., along with the go live of our agreement with the FTC. We need to continue to nurture growth back into our China business. While we work through these opportunities, our new guidance reflects a more favorable movement of the U.S. dollar and therefore, we have raised our outlook for the full year.

In the first quarter 2017, volume points increased 1 percent worldwide compared to last year. Total net sales for the quarter were \$1.1 billion, a 2 percent decrease compared to the prior year period but on a constant-currency basis, net sales were flat compared to the first quarter 2016. Our higher-than-expected volume performance this quarter was primarily driven by a 17 percent volume growth for China.

This was a result of our members buying significantly more products in March ahead of our planned price increase on April 1. On the one hand, this confirms strong customer demand for our nutrition products. However, the consequence is that our second quarter in China volume will likely be impacted by this activity. Nevertheless, our long-term full-year outlook for the market remains positive and this is reflected in our guidance.

Net income for the quarter was \$85.2 million or \$0.98 a share compared to net income of \$95.8 million or \$1.12 per share for the first quarter 2016. As we disclosed in our press release today, adjusted earnings for the first quarter was \$1.24 per share compared to \$1.35 per share for the first quarter in 2016. Reported in adjusted EPS, both beat the high end of our guidance by \$0.28 and \$0.29, respectively, and each reflecting higher-than-expected sales in China. While we make necessary investments for our future, we are also maintaining our control on costs.

In continuing our commitment towards enhancing shareholder value under our new share buyback program, we repurchased 2.1 million shares at the end of April for a total of \$119 million. Since 2007, we have repurchased over \$3.2 billion in stock and we have approximately \$1.38 billion remaining under the new program. John DeSimone will go into more detail on this in our financials later in the call.

In a moment, our incoming CEO, Rich Goudis will talk about the progress we are making with our business in the U.S. to meet the requirements of our agreement with the FTC. Rich and many of our executives and senior distributor leaders in the U.S. have been working tirelessly to ensure a smooth transition using new technologies and business tools, along with incorporating new rules and processes as we distinguish preferred members from distributors and track end-user purchases.

It's hard to believe that this is my last call with you as CEO of Herbalife. I've had the honor of leading our company on these calls since we went public in December 2004, sharing quarterly and annual highlights. In that time, we've experienced tremendous growth. From just over \$1 billion in 2003 to nearly

\$5 billion in 2016 in net sales, an increase of more than 5x in our market cap during that period.

From listening to these quarterly updates, you should recognize by now my passion for Herbalife, and our mission grows stronger every year. I'm proud to be one of Herbalife's largest individual shareholders, a reflection of my confidence in my current and long-term positive outlook for this amazing company.

Earlier this week, I had the pleasure of attending the annual Milken Institute Global Conference here in L.A., where I joined two panel discussions on health and global talent. The event provided a forum to talk about the future of nutrition and the economic opportunity we offer with the amazing leaders in the field of public health, both in the private and public sectors.

In my new role as Executive Chairman, my goal will be to do more outreach to government, university and policy leaders to help usher in solutions to the growing man-made issues affecting consumer health around the world. I'm more convinced today that we are uniquely positioned to be a solution to many of the world's problems but specifically, the skyrocketing healthcare costs.

We offer personalized nutritional programs that blend our science-based products with the voice and high touch of an informed distributor, offering personal coaching, community and social support. We believe these differentiating attributes of our business are a competitive advantage not found in any traditional retail or anywhere else.

And now, with our advances in science and technology and smart data from transacting directly with end consumers, we can assist our distributors in maximizing the economic value of their customers.

Additionally, with the rise in entrepreneurship in the gig economy where people choose to work for themselves, we are uniquely positioned to appeal to all generations, including millennials pursuing flexible work and a sense of

purpose, and increasingly, retirees looking to supplement their retirement savings.

Herbalife offers a business opportunity where our distributors can earn extra income while working to their own schedule and in the nutrition and wellness industry we see growing. And folks need that opportunity. I read recently that the average 40 to 55 years old in the U.S. has only \$14,500 in their retirement account, and 43 million people in the U.S. are receiving food stamps, up from 17 million in 2000. I have often described Herbalife as a company of stories, the thousands of stories that we have heard over the past 14 years have helped to inspire and motivate us through several business cycles and unprecedented business challenges.

One such story is from Robert, who lives in Rhode Island. He spent his life working in factories and retired at 63 years of age on a pension of \$91 a month. In his letter to me, Robert told me how he started as a customer of Herbalife, benefiting from a daily shake and a sense of community at his local Nutrition Club.

He was inspired by the club's owner and under her guidance, Robert became a distributor and went on to build his own base of customers. Through Herbalife, like so many customers, Robert improved his own health and then, like many other distributors, he found purpose and saw the opportunity in helping others in this community do the same.

Through his experience, he's gained new skills in business marketing, nutrition, and he is earning extra income that supplements his pension. If the mark of a successful career is the favorable impact you make on the lives of others, I couldn't be more fulfilled knowing that the lives of so many have been improved because of our mission for nutrition.

This coming June, just a few weeks from now, Rich Goudis, my colleague for 13 years, will become our Chief Executive Officer. I'm excited for you to experience his passion for our nutrition purpose, his vision for our product and technology innovation and his focus on assisting our distributors and employees through training as we strive to improve nutrition in the world.

Rich, congratulations, my friend. It's over to you.

Richard P. Goudis: Thank you, Michael, and good afternoon, everyone. It's hard to believe this is Michael's last earnings call as CEO. Michael's passion for our mission has driven incredible growth for our company over the past 14 years. And today, more importantly, the Herbalife Nutrition brand is recognized worldwide for its nutrition products and personalized approach to supporting customers with their nutrition goals.

Ever since we announced the change in leadership last November, Mike and I have been working closely together to ensure a smooth and seamless transition. Given our 13-year working relationship, it should come as no surprise that we have been joined at the hip during this critical period. I'm grateful for his encouragement, wisdom and friendship, and I look forward to his continuing partnership in our new roles to enhance shareholder value. As Executive Chairman, Michael will continue to provide us with his invaluable counsel and advice, his inspiration for our distributors along with his experience leading the Board.

For the past 9 months, many of our executives, along with the entire North American management team and distributor leaders, have focused on implementing new technologies, along with new rules and procedures that will ultimately enhance distributor earnings under the FTC agreement here in the U.S.

One of the exciting areas of advancement and one that we believe will create significant competitive advantage for us in the future is the way we are now capturing distributor and customer transactions and tracking product sales using newly developed technology tools. In close collaboration with our distributors, we have built and continued to enhance these tools that we believe will allow us to leverage data, analytics and build even stronger customer relationships and design better retention programs for our distributors.

As our technology and tools have continued to improve in the U.S. during 2017, our distributors around the world have expressed their desire for us to provide them with the same type of functionality in the coming years. Our U.S. distributors have dedicated a significant amount of time and effort to help develop and implement these new tools into their business practices.

As a result of this shift in focus, and as we communicated, we expect that a small short-term impact in the U.S. In line with this expectation, our first quarter volume points in the U.S. were down 5 percent. We believe the impact of this transition in the U.S. business is similar to that of the worldwide marketing plan changes that we implemented back in 2014 and 2015. As a reminder, after our worldwide distributors effectively cycled through those new changes, we expensed a return to volume growth for the company. As with the case back then, we expect the same to happen here in the U.S.

We continue to make significant progress with the segmentation requirement of the agreement. We began segmenting our existing U.S. members into preferred customers and distributors in October, and today, the total number of preferred customers is approximately 360,000 people.

In addition, since January 13, when segmentation became available at sign-up from the U.S. members, 80 percent of our new members are signing up as preferred members and more than 60 percent of all those placing orders in the first quarter were preferred members. As we have maintained, this data continues to validate our previous research and studies that the majority of our members are comprised of customers who desire to consume Herbalife Nutrition products at a discount and not to resell the products or create a sales organization.

On our last earnings call, we talked about our focus on increasing distributalization of our new point of sale receipting tools that enable electronic tracking and verification of sales to customers. In January, we processed approximately 120,000 retailer receipts. In February, approximately 1 million. And last month, in April, approximately 2.2 million retail receipts.

In just 3 months, we have seen a tremendous increase in receipts being turned in, in process. This is a significant accomplishment and it's a great testament to the robust technology infrastructure we have built, our talented global IT team of over 1,100 employees, but, above all, the incredible time and effort our distributor leaders have put in to making these new tools through productivity advantages for their businesses.

Let me now provide you with an update on how we are tracking to the 80 percent threshold. As a reminder, the 80 percent is simply a threshold that determines how much additional compensation will be allowed to pay on top of the existing rewards for documented sales. While this is not a measure of compliance, we believe we are on track to meet the 80 percent threshold, and I'm pleased to report that, at the end of April, our calculations show we are in excess of 70 percent.

To be clear, as we go live here in May, the 80 percent threshold is not a monthly measurement but rather a calendar year measurement. Perhaps the most significant advancement to our business, which was developed through the implementation of the agreement, is that by tracking sales of our products to end-users, we're gaining direct transactional level visibility and insights into a customer base that we've never had before. The segmentation of our member base is allowing us to develop communication and marketing materials that speak directly to customers and thus, provides us with the ability to enhance and lengthen their experience with our company.

We now have access to valuable data such as consumer pricing, seasonal buying preferences, product selection and bundling by psychographic category, new product launch metrics, consumer contact information and patterns of usage across different geographic groups.

We believe this smart data will also help us empower our distributors to better meet their customers' needs, thus, increasing customer loyalty, purchase frequency and lifetime value. We believe that the person-to-person connection relationship, nutrition education and coaching, along with the creation of a social community with our customers, sets us apart from traditional retail.

And now with the new smart data rolling in for millions of retail sales transactions each month, just here in the U.S., we have an opportunity to take personalized nutrition to a whole new level.

Michael said to me recently, "Rich, you're taking over CEO in an amazing time for our company", and he's absolutely right for several reasons. The megatrends of obesity, aging populations, skyrocketing public healthcare cost and a rise in entrepreneurship provide us with an exceptional platform for growth. Over the last 14 years, we have invested in an infrastructure that we believe has not only created a barrier to entry but a competitive advantage. Having direct access to consumer purchasing data will play a powerful role in our future growth and now, like never before, we are in an enviable position.

Our company has never worked so closely with and gain such trust and confidence from its distributor leaders. Our unity, collaboration and shared purpose to make the world healthier and happier will be our true competitive advantage for years to come. I firmly believe that thanks to increasing investment in education, training and innovation, the opportunity is greater today than ever before for someone just joining the company. During my 6 years as CFO, I had the responsibility to instill in this company a fiscally prudent culture and disciplined capital allocation that has only been enhanced with John's leadership these past 7 years.

Since becoming COO, I've had the opportunity to build and lead a team of tremendous professionals as we implemented our C2C program, rolled out a robust single-instance Oracle technology platform and created global shared services. Together, team Herbalife has created a strong balance sheet and an ROI-driven culture, along with a scalable infrastructure to support future growth, providing our distributors with pride and confidence in our products and our company, all while establishing ourselves as a leader in the nutrition industry. I'm thankful for the positive words of support and encouragement from our top investors, and I'm grateful for the opportunity to lead this amazing company into the future.

Let me now turn it over to John for a financial overview of the past quarter and a review of guidance for the balance of 2017.

John G. DeSimone: Thank you, Rich. Today I will start by discussing the company's first quarter 2017 reported and adjusted results, which will include key market highlights. I will then review our second quarter and full year 2017 guidance, and we'll conclude by providing an update on our share repurchase program.

Volume points for the first quarter 2017 grew 1 percent compared to the first quarter 2016, while reported net sales for the first quarter decreased 2 percent to \$1.1 billion.

Constant currency net sales were flat compared to the first quarter in 2016. Volume and sales performance in the quarter exceeded our Q1 guidance, largely driven by higher-than-anticipated volume in China during the month of March.

As stated in our press release, China significantly exceeded expectations, primarily due to the timing differences in sales and volume, which resulted from the price increase announced in March 2017, effective April 1, 2017, that we believe shifted member purchases into the first quarter that would like have been made in the second quarter of this year. The expected negative impact to the second quarter sales and volume is included in our current guidance.

I will provide additional guidance detail later in the call. Reported net income for the quarter was \$85.2 million or \$0.98 per diluted share compared to the reported net income of \$95.8 million or \$1.12 per diluted share for the first quarter 2016. Adjusted diluted EPS for the first quarter was \$1.24 per diluted share compared to \$1.35 per diluted share for the first quarter 2016. Reported and adjusted EPS both exceeded the high end of our first quarter guidance by \$0.28 and \$0.29, respectively.

This beat was driven by approximately \$0.18 from better-than-expected performance in China. The adjusted EPS figures exclude items we consider to be outside of normal company operations we believe that will be useful to

investors when analyzing period-over-period comparisons of our results. Please refer to our first quarter 2017 earnings press release for additional details on these adjustments.

Currency, while improving over the past couple of months, continues to be a headwind in the year-over-year comparisons. First quarter 2017 reported and adjusted net income were negatively impacted by \$9 million or \$0.10 for the reported and adjusted diluted EPS due to currency fluctuations. Reported gross margins for the first quarter of 81.4 percent increased by approximately 40 basis points compared to the prior year period.

This increase was driven primarily from the impact of cost-savings through strategic sourcing and self-manufacturing and retail price increases, partially offset by the unfavorable impact of foreign currency fluctuations. First quarter 2017 reported and adjusted SG&A as a percentage of net sales was 39.8 percent and 38.8 percent, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 28.7 percent, approximately 80 basis points higher than the first quarter 2016.

Our first quarter reported effective tax rate was 25 percent, while our adjusted effective tax rate was 22.9 percent, which were approximately 820 and 730 basis points lower than our reported and adjusted tax rates, respectively, for the first quarter of 2016. Included in the reported and adjusted tax rate for the quarter is approximately \$4.3 million from the excess tax benefit on share-based compensation. This relates to the adoption of the updated stock compensation accounting standard, ASU 2016-09.

This new accounting standard changes the treatment of any tax benefit the company receives from the exercise of equity grants that is different than the intrinsic value at the date of the grant. Such differences in the past were booked directly to equity, but during the first quarter and going forward, such differences are and will continue to be included in the P&L.

Shifting over to our regional market highlights. First quarter volume points for the U.S. were down 5 percent compared to the prior year quarter. This is in line with our expectations and, as we previously stated, the short-term

volume softness as a result of our distributors' focus on preparation for the FTC implementation, which has taken away time from normal sales and business-building activity. Throughout this transition, as Rich highlighted, our distributors continue to adapt and educate their organizations to these new tools and procedures, and continued to demonstrate high levels of engagement.

Looking to the second quarter, the comparisons get much more challenging as the second quarter of last year was the largest volume quarter in the history of the U.S., with April of 2016 being the largest single volume month in U.S. history.

Moving on to China, first quarter volume points increased 17 percent compared to the previous year. As stated previously, this was primarily driven by volume in the month of March, which was a pull-forward ahead of a 5 percent price increase effective April 1. We estimated this impact to be approximately 40 million to 45 million volume points, which will lead to a lower-than-previously planned second quarter for China. Excluding this estimated impact, the year-over-year change in China's first quarter volume trend would have been in line with both the Q4 trend and our expectations for the quarter.

The Asia Pacific region showed positive year-over-year volume growth for the fourth consecutive quarter. Volume points for the region grew 5 percent compared to the first quarter in 2016, with notable performance from India, Indonesia and Vietnam. Volume points for South Korea were down 31 percent and in line with our expectations for the quarter and similar to the fourth quarter of 2016 trend. Volume points for Asia Pacific, excluding South Korea, increased by 13 percent compared to the prior year period.

Mexico volume points increased 4 percent year-over-year, representing the sixth straight quarter of volume growth.

First quarter volume points for EMEA grew 5 percent compared to the first quarter of 2016, with growth in 6 of the top 10 markets.

Lastly, volume points for South and Central America, decreased by 14 percent compared to the first quarter of 2016, with Brazil having a quarterly decline of 13 percent year-over-year, in line with our forecast for the market.

Looking at the guidance. For the second quarter 2017, we estimate volume points in the range of a decline of 5 percent to a decline of 1 percent. Volume point guidance for the second quarter is significantly impacted by the China pull-forward of volume into the first quarter that I discussed earlier. For the full year 2017, our volume point guidance remains unchanged, a growth of 2 percent to 5 percent. Net sales guidance ranges for the second quarter and full year 2017 are estimated between a decline of 4.5 percent to a decline of 0.5 percent, and between a growth of 3 percent to 6 percent, respectively. On a constant currency basis, we estimate second quarter and full year 2017 net sales to be in the range of a decline of 4 percent to flat and growth of 3.6 percent to 6.6 percent, respectively.

For EPS, excluding the potential impact of any future share repurchase, second quarter reported diluted EPS is estimated in the range of \$0.65 to \$0.85, and adjusted diluted EPS guidance in the range of \$0.85 to \$1.05. Second quarter adjusted EPS guidance includes a projected currency headwind of approximately \$0.03 per diluted share versus the second quarter 2016.

The company has raised its full year reported diluted and adjusted diluted EPS guidance to a range of \$3.25 to \$3.65 and to a range of \$4.05 to \$4.45, respectively. Full year 2017 currency headwinds are now projected to be \$0.20 compared to 2016, which is \$0.30 less than the headwinds included in the guidance the company provided a quarter ago.

Capital expenditures for the second quarter is expected to be within a range of \$40 million to \$50 million and for the full year, remain unchanged to \$125 million to \$155 million.

Second quarter effective tax rate guidance is 29 percent to 31 percent on a reported basis and 26 percent to 28 percent on an adjusted basis. Our full year

2017 effective and adjusted tax rate guidance has been updated to ranges of 27.5 percent to 29.5 percent and 25 percent to 27 percent, respectively.

Lastly, in regards to cash and our share repurchase activity. At the end of the quarter, we have \$1.8 billion in cash, which is largely comprised of the proceeds from our recent \$1.3 billion term note that we discussed on our last quarter's earnings call. And through the end of April, the company has purchased a total of 2.1 million of Herbalife's common shares at an aggregate cost of approximately \$119 million or an average cost of \$57.70 per share. The shares were purchased in the open market, mostly utilizing a 10b5-1 plan. As of April 28, 2017, the remaining authorized capacity under the company's \$1.5 billion share repurchase program was \$1.38 billion.

I will now turn the call back over to Michael before taking questions.

Michael O. Johnson: Thanks, John. Before we all open the call for Q&A, I wanted to convey some closing comments. We've had an amazing success over the past 14 years, thanks to our incredible and passionate distributors who are amazing entrepreneurs and continue to pioneer new ways to reach customers, and a special thanks to our 8,000 employees who ensure we deliver quality products catering to our distributors and customers' needs.

We are deeply grateful for the dedication and hard work and the relentless passion they bring to each and every day to make Herbalife the premier nutrition company in the world. We have stood together through every twist and turn in our journey and throughout it all, we've built Herbalife bigger, better and stronger. I'm extremely proud of what we have done together and I can't wait to see what the future holds for our Herbalife. Thank you.

And now, operator, we can open the call for questions.

Operator: At this time, if you would like to ask a question, please press "star" and the number "one" on your telephone keypad. Again, that is "star" and the number "one" for questions. And we'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Tim Ramey with Pivotal Research Group.

Timothy S. Ramey: I wanted to get into a couple of questions on share repurchase. Glad to see you did some, it was more modest than I thought you could have done at a pace of kind of 60 million a month. Is there a rationale why the pace is perhaps more measured than we would have thought?

John G. DeSimone: Well, as we said in the call, Tim, most of the buyback was done through a 10b5. There were certain parameters in the 10b5 that could create acceleration or deceleration of a certain amount. Stock, obviously, moved up during the quarter and that certainly had an impact on the quantity that we were buying.

So once you get in a quiet period, you kind of lose control, right? You set up a 10b5 based on the circumstances as you see them before the window closes. The window closed pretty quickly after earnings last time because the year-end earnings is pretty late in the cycle. I want to say we might have had 20 calendar days, just that long, before we set the 10b5 in. And so once you put the 10b5 in, you live with it. So that's probably why it was a little bit lower than what you were thinking.

Timothy S. Ramey: OK. But the window reopens and you can adjust the parameters, presumably, in a couple of days?

John G. DeSimone: Correct.

Timothy S. Ramey: OK. The ASU 2016-09, I think if I'm not mistaken, there's a corresponding impact on shares. Just trying to think through what the EPS impact was of implementation there. Can you discuss that at all?

John G. DeSimone: Yes, first of all, I don't think it should, but it does impact the share base. Basically, when you use the treasury stock method for determining diluted shares, in the past, if you've got a tax benefit, that created an assumption that you have cash and then you assume you use that cash to buy back stock, which in our case we would. You know -- because the -- no economics change in this, just the new pronouncement require that you can no longer get

that benefit in your assumptions throughout those 0.5 million shares, or share base, to be a little more direct.

Timothy S. Ramey: OK. And I had kind of postulated, and I don't know if your comments so far would clear it out, but I had wondered if kind of the extreme engagement that you had with distributors for the last couple of quarters, actually you sort of reenergized the troops a bit as opposed to the example Rich cited of the comp plan changes in 2014 where the negative effect was more pronounced. I might be asking you to just pontificate, but do you think that was true to any degree?

Desmond Walsh: Tim, this is Des. So look, experience has taught us that our distributors respond extremely well to challenges and adversity, that's always been the pattern over the last 37 years and will continue to be. And so certainly the degree of involvement, the partnership, the calls, the meetings, that has certainly been a factor in what we're seeing, but look, the reality is that we're facing a very difficult comp in the second quarter. Obviously, second quarter 2016, the highest volume quarter in the U.S. in Herbalife's history, April was the largest single month in the U.S. So obviously, if you go through it in the second quarter confident about the FTC implementation but just recognize the rate of the comp that we're going into.

Timothy S. Ramey: Got it. And just one more while I got you, the -- on the forecasted ETR for the full year, does that assume any future benefits from -- I think you said it didn't assume future benefits from the ASU 16?

John G. DeSimone: Yes, it does not. We don't do a projection on equity exercises, right, those are decisions made by employees. And so -- and by the way, it could be positive or negative, right? In our case, likely, it will be positive. Basically, it's any difference between the intrinsic value at grant date and the true value at exercise date goes to the P&L. So in our case, that would be a benefit, given the likelihood of stock exercises, but we do not project it.

Operator: And your next question comes from the line of Mike Swartz with SunTrust.

And as a reminder, if you would like to ask a question, that is “star” and the number “one” on your telephone keypad.

Michael Arlington Swartz: I apologize if you've already gone through this, been hopping between calls, but the -- in the China business, it sounds like, John, what you said was essentially the underlying trend in volume points was similar to the fourth quarter. If I do the quick math, it looks like it was down about 10 if we exclude the shift due to the pricing action. So maybe you can give us just a sense of kind of what's going on in the underlying business there, and maybe how to think about that as we move through the year?

Desmond Walsh: Mike, this is Des. So listen, basically, we've engaged a lot of focus on China. We've got a whole team focused on this. We've had some of our international people relocate and are working with the local team there because, again, the fundamental challenge that we reflected in the past are still there, but we're very actively engaged on that.

The confidence that we take from what happened, obviously, with this pull-forward because of the price increase, is it's an indication of the significant engagement of our sales force in China and the strong consumer demand for our products. So both of those are very positive. And then in terms of the trends, in terms of focus on clubs, on best practices, on reengaging with our customers, on using social media as a supplement rather in the way of doing the business, all those initiatives are still in place and will continue.

John G. DeSimone: Got it. If I could just build on that, because what the -- Q2 is a unique quarter. We've got a couple things going on that's going to make it challenging from a comp standpoint. One is, in China, we pulled a lot of -- our members pulled a lot of volume into Q1, which will certainly hurt the comp in Q2.

And then U.S., as Des said, Q2 last year was the record high for the business and April was the record month. And so we've got to comp that, at the same time, we're going live with the tools for the FTC agreement, and the nuance between ending in April without the requirement to use them, even though we're using them and starting now with the requirement to use them. So we

do think Q2 is the bottom for both of those markets, but Q2 is a difficult comparable.

Michael Arlington Swartz: OK, that's helpful. And then maybe just an update on the Tasly JV partnership that you announced, I believe it was last quarter, where we stand today. And just maybe timing of -- I know you guys are teaming up with some new products, so timing of when maybe you start to roll that out?

John G. DeSimone: I'll start with your second part first. So what we said in the last call is still consistent where we are today, which is it's much more of a next year benefit. The Tasly joint venture, as we announced, it was a Letter of Intent, I think that it's not yet done. It's close, we're working diligently to get it done. And when it's done, we'll have more to say.

Operator: Your next question comes from the line of Beth Kite with Citi.

Beth Kite: I had one question still on China before moving to a couple other markets. And I just wanted to understand, so the price changes that went into effect during April, does that present risks in so much as the market is already going through a little bit of turmoil in general, what was logic behind that? And are you concerned that the higher prices pose a greater challenge?

Desmond Walsh: We don't, Beth. The last price increase we took in China was in 2011 on a worldwide basis. Our general philosophy is price increases on a regular basis, at or below the rate of inflation. We see significant strength in terms of our underlying business in China.

And so frankly, the 5 percent price increase really just takes into account what has happened in recent years in terms of inflation and so on. We've got a group of highly engaged leaders there. I think that was evidenced in what we saw in March in terms of that -- the impact of that price increase and them, reaching out to current and former customers. And so they know what to focus on going forward.

Beth Kite: Got it. OK. Fair enough. Finally, EMEA region, where the local currency sales were up 6 percent. The couple of countries that you cited in the Q were

down slightly below that. Could you help us understand some of the countries in there that were stronger?

John G. DeSimone: Are you looking for -- sorry, I didn't understand the question. Total sales reps, average active -- can you just ...

Beth Kite: I'm sorry. I'm thinking about local currency sales growth, since it's the driver in EMEA, just to sort of think about that for the rest of the year. Which country, since Russia was 4 percent and Italy 4 percent and Spain 4 percent, what were some of the ones that's perhaps stronger as you comp some tougher local currency sales growth the next couple of quarters?

Desmond Walsh: Yes, listen, Beth, what's driving growth in EMEA is the continued adoption -- successful adoption of the marketing plan changes that we've put in place a couple of years ago, the focus on daily consumption. So markets like Italy, that have always been solidly based, they continue to lead that trend. We're also seeing some other Western European markets, we're pleased to see what's happening in Germany, that has been flat for so many years, return to growth. So basically, it's just continuation of the same strategies that you're going to see just continue to evolve.

Beth Kite: OK, great. And then I can keep walking around the world for 2 more countries, specifically. Brazil, what -- it feels like you have such a good stick on what you want to go about changing in China. Where are you in your decision-making or plans to execute to potentially reaccelerate growth in Brazil?

Desmond Walsh: Yes, so look, we have a lot of things happening in Brazil, Beth, but the reality in Brazil, unfortunately, is that it's a very different economic and geopolitical situation to China. Obviously, a lot of distractions there. The majority of our business in Brazil is done with credit cards because most orders are placed online.

I think you may know in Brazil, you're facing interest -- credit card interest of 30 percent a month. So the amount of cash that's available in the market, both for our distributors and for consumers, is just greatly restricted simply because

of the economic environment. And although we continue to see our high levels of distributor engagement and lots of activity, lots of initiatives, the reality is that you've got just a very tough environment for us to do business in there. And frankly, that's likely to continue through the rest of this year.

Beth Kite: OK, great. And then in the U.S., you did some great data points in terms of preferred members and receipting and the like. Do you have a sense across your Nutrition Clubs here in the U.S. how many Nutrition Club owners are kind of like ready to go in terms of -- do you still have to reach x percent to really kick them the new tools and train them per se?

Richard P. Goudis: So Beth, this is Rich. So I think that look at the receipt information we gave you and having over 2.2 million receipts last month was encouraging to us and it tells us -- and a lot of those were Nutrition Club receipts, tells us that this continues to have upside as far as engagement.

As you know, April was not the go live month. We expect more receipts in the month of May when it actually will affect how we compensate our distributors. So like anything, like that telephone game we played back in kindergarten, it's going to take time. We have a war room; our distributors are active. This is job 1 for everybody right now in the month of May, to make sure that we can get as high receipting percentage as possible, and our clubs will lead the way.

Beth Kite: Great. OK. And then one last question for John on guidance. Do you -- so I think that basically for the incremental \$0.40, it sounds like a large part of that is FX, maybe some of the tax changes, especially seeing that great benefit hit in the first quarter. Was there any sort of offsets that anything turn more negative or was everything just kind of just more incremental and positive?

John G. DeSimone: So look, I'll try to roll it forward, right? So it's \$0.40 in the high end and the low end. We beat the high end by \$0.29 in Q1, \$0.18 of that is timing from China, so you really got \$0.11 in Q1. We took the year by \$0.40. That incremental \$0.29, \$0.26 if it is currency. So the rest, the \$0.03, is tax rate, a lot of which was already booked in Q1 because of the excess tax benefit on

the comp plan stuff. So the \$0.03 is made up of a handful of things that go each way, but nothing material that's a negative offset.

Operator: We have no further questions in queue at this time.

Michael O. Johnson: So let me do a quick closing here, and it's going to be probably slightly emotional for me because I think you all know it's been an honor for me to lead this incredible company over the past 14 years. For those of you who have been shareholders with us a long time, you've seen us evolve as a company from 50 to 94 countries. We're 5x greater in the increase of our market cap, but above all, we're closer and more engaged relation -- we have a closer and more engaged relationship with our distributor leaders, our employee team and a few of our investors.

And with all of our investments in infrastructure, in all the different things that we're doing, we're incredibly well-positioned for the future. This is a great future ahead for us, and I look forward to be engaged and part of it to help build our company stronger and better and as a shareholder, my interest, I think you know, are aligned with all of yours. As Vice Chair of this company going forward, I'm curious in helping our company continue on our journey to be a positive and impactful member of the communities where we live and work. It's my next chapter in my Herbalife.

So many thanks to you for your support and enthusiasm over the years and for the shared confidence we all have for our incoming CEO, Rich Goudis. That confidence is extremely high across the breadth of this company and with our distributors. And too, our distributors, we just mentioned our customers and employees, a heartfelt thank you. And as I say to our team, onward and upward.

And on behalf of Rich and the team, we look forward to being with you next quarter. Thank you.

Operator: Thank you for your participation. This does conclude today's conference call, and you may now disconnect.

HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Alan Quan

05-04-17/5:30 p.m. ET

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Page 22

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