

Herbalife International of America, Inc.

**Moderator: Amy Greene
October 29, 2013
11:00 a.m. ET**

Operator: Good morning and thank you for joining the third quarter 2013 earnings conference call for Herbalife Ltd. On the call today is Michael Johnson, the Company's Chairman and CEO, the Company's President, Des Walsh, John DeSimone, the Company's CFO, and Brett Chapman, the Company's Chief Legal Officer.

I would now like to turn the call over to Brett Chapman to read the Company's Safe Harbor language.

Brett Chapman: Before we begin, as a reminder, during this conference call comments may be made that include some forward-looking statements. These statements involve risk and uncertainty.

As you know, actual results may differ materially from those discussed or anticipated. We encourage you to refer to yesterday's Earnings Release and our SEC filings for a complete discussion of risks associated with these forward-looking statements and our business.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements, prepared in accordance with US Generally Accepted Accounting Principles referred to by the Securities and Exchange Commission as non-GAAP financial measures. We believe these non-GAAP financial measures assist management and investors in evaluating and preparing, period to period results of operations in a more meaningful and consistent manner.

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 volume during this conference call, they are referring to volume points. I'll now turn the call over to Michael.

Michael Johnson: Thank you, Brett. Good morning everyone and welcome to our third quarter 2013 earnings call. Foundation of our business is stronger than it's ever been and the operating results we announced yesterday are the best in the Company's history.

It was another record performance from both a top and bottom line perspective. Third quarter net sales of \$1.2 billion were 19 percent above last year's third quarter. Our adjusted EPS of \$1.41 is an increase of 44 percent compared to the prior year period and we generated more than \$220 million in cash flow from operations. In addition to our record financial performance for the third quarter, we announced an increase in guidance for revenues and profits in 2013 along with our initial guidance for 2014.

Our outlook for record financial performance into 2014 reflects our continued confidence. The mega trends influencing our business coupled with our successful execution of core strategies will continue to grow our business. The global obesity epidemic continues to be a catalyst for Herbalife around the world.

For more than 33 years Herbalife has been offering a safe, simple and effective weight loss and weight management product, our Formula One shakes, as well as the social community and support provided by our distributors which continues to drive our stores. It seems that every day there is a new article published about the percentages of the world population who are either overweight or obese.

The American Heart Association said in a December 2012 report that if the current trends in the growth of obesity continue, total healthcare costs attributable to obesity could account for 16 percent to 18 percent of US

healthcare expenditures. Herbalife nutrition products and our distributors are well positioned to help combat this epidemic.

We believe the obesity epidemic and its corresponding impact on public health has created public awareness of the need for solutions. We are seeing more governments, local and national take steps to change the trajectory of their obesity rates by focusing on reducing the consumption of sugars, fats, and salts. Governments are recognizing the economic impact of providing healthcare to an increasingly overweight and obese population.

Herbalife's product line and support training and social environments that our business model allows is an effective weight loss and longer term weight management solution for many people around the world. Recent studies and articles have shown the importance of peer support and the benefits of participating in group weight loss programs.

Herbalife distributors add incredible value by supporting their customers with motivational, socialization, regular encouragement as well as education on nutrition and the importance of a healthy, active life. Millions of customers around the world have benefited from this experience.

In addition, our distributor's nutrition clubs, fit camps and weight loss challenges are great examples of the power of people in a social setting working together to achieve personal health goals. When we turned nutrition clubs and fit camps with our newest board member, Dr. Richard Carmona, he immediately recognized the power of people working together in Herbalife.

Dr. Carmona brings to us more than 40 years of experience in medicine, nutrition, preventative health and business to the Herbalife Board, including his experience as serving as the surgeon general of the United States from 2002 to 2006. We really look forward to leveraging his expertise in our ongoing initiative to ensure nutritional benefits in all Herbalife products in continued efforts to empower our distributors around the world.

Our business model also economically empowers hundreds of thousands of members as they earn retail profits on the sale of Herbalife products to the

millions of consumers around the world. For instance, in Mexico, Herbalife members serve an estimated 700,000 shakes per day to customers through their nutrition clubs.

While the amount of money earned by many members is simply selling the product it may not seem meaningful to some people, it is to many of our members. A couple hundred dollars a month can make a material difference to many, many families in the world. At Herbalife, the commitment to continuous improvement is a core part of our culture.

The Herbalife of today has evolved from that of five or even ten years ago and we will continue to evolve into the future. Evolution is a characteristic of all good companies. Our Build It Better initiatives are designed to strengthen our Company.

Let me review some of the more important enhancements that we've made during the last couple of years and then announce a few more to come. We recently announced that we changed our nomenclature to reflect the intent of many participants who are discount customers by now calling them members rather than distributors.

We have added our statement of average gross compensation as part of our membership application ensuring that all new participants are provided this information before they join us. We have enhanced our industry-leading product buyback guarantee program. We provide 100 percent money back guarantee for any product or business pact purchase. And we pay the return shipping cost.

This ensures that any money who resigns for any reason can get their money back for any unsold product purchased in the prior 12 months. In addition, we will refund 100 percent of the cost of the start-up kit for any member who decides to resign in the first 90 days after joining and they don't even have to return the kit. Let me recap these three enhancements before announcing new ones.

We changed the name of entering participants to members which is indicative of the reasons most people join Herbalife, to earn a discount on the products

they purchase to use themselves. However, if a participant does join Herbalife or the business opportunity they must confirm that they are read the statement of average gross compensation disclosure prior to signing up.

And if they change their mind after joining and want to leave for any reason, Herbalife protects the participants by offering to buy back any unsold inventory without a restocking fee and even paying for the return shipping. While these changes clearly offer significant protection to new participants, we're going even further.

By the end of 2013, in the US and globally next year, we will be enhancing our training and communication to participants. There are three specific enhancements that I would like to announce today. One, as part of our membership application, all new members will be required to acknowledge that they are aware of the core protections offered by Herbalife including our buyback policy. Such acknowledgement will be required before a participant's first order.

Two, any participant wishing to pursue our business opportunity will be required to complete a formal Company training program prior to becoming a sales leader and before becoming eligible for royalty compensation. This training includes the key dos and don'ts of direct selling.

And three, any participant desiring to use a nutrition club DMO will be required to complete a formal Company training program. This is in addition to the already implemented 90 days waiting period prior to opening a club. These items will be implemented this year and next year we will require an annual recertification training as a prerequisite of requalification of sales leaders.

The Company's always had a robust training program and it's had multiple formats to push training to participants, including online tools and training, supported by distributor leaders, distributor meetings and events and ambassadors in the field as well as product training and education from our worldwide nutrition advisory board members. We are you now implementing

a program that ensures that all members are aware of the Company's protections and core rules.

While we believe that our business model and compliance programs have long been industry leading, these changes should eliminate the vast majority of misperceptions and misrepresentations that have been made about our Company, at least to any objective individual.

The record performance we continue to report reflects the success of our core strategy, our products. We continue to build our global strength in weight management with our focus on product segmentation, and in core nutrition with a focus on regional preferences.

At the same time we are creating product lines that have a potential to attract and build new distributor groups to innovation in sports nutrition and our newly launched personal care line. Daily consumption. For the past several years we have been talking with investors about the global expansion of various daily consumption business methods such as our nutrition club, fit clubs and weight loss challenges. The beauty of these business methods is two-fold.

The social and personal support provided by our members, and that our products are available at a price point accessible to a larger segment of the population both of which help customers achieve their nutritional goals. It is these business methods where the value add of the Herbalife members is so apparent.

The social communities created by the clubs, along with the member who can inspire, motivate, teach and measure the success of customers are all integral parts of what has made Herbalife and our members so successful. We believe there continues to be significant head room to expand these business models deeply into new markets and we are encouraged with the ongoing refinement and improvement of these methods in markets that were early adopters of daily consumption methods.

Training. We continue to increase our investment in training and education tools for our members. We work to train our members in the areas of you

nutrition, products, branding, claims, testimonials, rules and ethics and financial empowerment. Herbalife training tools are available in many formats. They're designed to be accessible to members around the world.

There are many Herbalife training meetings that happen every day in our nutrition clubs or offices around the world. These training's are designed to empower both new and existing members with information about Herbalife products, practices, rules and also to inspire and to motivate.

Brand and image. While we continue to increase our investments in this area primarily through sponsorships, we understand our brand strength is the experience and the emotional connection that is created through our Herbalife product success and our Herbalife distributors. Let me take a moment quickly to congratulate the LA Galaxy on a great season and wish them well in their march to another MLS Cup, all part of the great Herbalife brand.

And infrastructure. We continue to make investments in manufacturing, technology, distribution, and create more access points which allows us to stay ahead of the growth by creating competitive advantage with our seed to feed program. So what does this all mean?

Favorable mega trends coupled with the development and successful execution of our core strategies have resulted in record financial performance for the Company. We are experiencing tremendous growth all around the world driven by increasing daily consumption of our nutrition products as a result of the global obesity epidemic and an aging population.

Our members and sales leaders remain highly engaged sharing great ideas to drive global growth by working closely with management to introduce new ideas and initiatives worldwide. All of us at Herbalife are working harder and smarter every single day to create enhanced value for you, our shareholders. Let me hand the call over to Des for a more detailed update on performance in our key regions.

Des Walsh: We continued our strong performance through the third quarter of this year, marking our 16th consecutive quarter of double-digit top line growth. As

previously mentioned, we've begun to implement the nomenclature change, where new participants are classified as members in our system.

The new term is currently being programmed in our Oracle systems and applied in member applications. Throughout today's discussion of results, you will hear the new terminology. Our business momentum has carried forward after the first strong first half of 2013, with increased sales leader growth and engagements seen throughout our markets.

Five of our six regions posted volume point growth and local currency net sales and average active sales leaders with volume points increased in every region. In the first nine months of this year, over 180,000 members and sales leaders attended regional extravaganza, summit and honors events, with over 53,000 just in the last three months attending the events held in Russia, Germany, Mexico and Turkey.

Herbalife's members around the world continue to witness the effects of obesity, poor nutrition and unemployment in their communities and collectively stand now more than ever in their passion to provide a viable and effective solution, by offering delicious, low calorie and accessible nutrition, coupled with attentive personal service, Herbalife members engage and support their consumers with the proper tools to achieve a healthier lifestyle.

Their dedication drives consistent execution and business growth which are embodied in the financial results you'll hear about today. Now let me provide some highlights and details on our regions. The North American region had another great quarter. It posted 10 percent net sales growth and 9 percent growth in volume points each compared to the prior year.

Average active leaders with volume points increased 9 percent and new members increased 9 percent compared to last year's third quarter results. The per capita volume point penetration for this region in the last 12 months was 3.4. This compares to 7.3 in Mexico and 9.2 in Korea. Again, supporting our belief that there is significant growth potential for our largest and most established regions.

Within the North American region, the continued strength of the US market is demonstrated in net sales growth of 10 percent, and volume point growth of 10 percent, each versus the same quarter last year. Compared to the prior year period, average active sales leaders with volume points increased 9 percent, and new members in the US also increased 9 percent.

In addition to favorable volume point and net sales metrics, we are very pleased with the following developments in the US market. In excess of 75,000 new US members joined Herbalife this quarter. Coupled with the approximately 150,000 new members who joined during the first six months of the year, this record number demonstrates the continuing solid public interest in consumption of Herbalife products and access to our business opportunity, whether for a little supplemental income or to build a full-time business.

This is the largest collected entrance of new members in Herbalife's history and we believe demonstrates the public confidence in our Company and business model has never been greater. Members who choose to develop an Herbalife business are increasingly engaged in the use of daily consumption methods of operation, including nutrition clubs and fit clubs.

As Michael mentioned, we're implementing a standardized club development program that provides mandatory training for new nutrition club owners and encourages best practices. And as further indication of the broad base of our continued record performance in the US, 21 of the top 25 Metro US markets posted growth in the third quarter over the same period last year. Now let's turn to Mexico where local currency net sales for the quarter increased 9 percent and volume points increased 4 percent, each as compared to the prior year period.

For the third quarter, average sales leaders with volume increased 8 percent, compared to the prior year. The per capita volume point penetration in Mexico for the last 12 months was 7.3. We regret that in September, two of the largest hurricanes ever to hit Mexico damaged towns and interrupted the lives of many. Despite the operational impact in that period, Mexico posted solid growth in the third quarter.

The strength of the underlying fundamentals in Mexico's business is reflected by the rise in the number of sales leaders qualifying under the 5K qualification method as well as the continuing transition from home nutrition clubs to commercial nutrition clubs. We have seen that the larger space in commercial clubs typically enables members to expand customer outreach so more can experience the efficacy of Herbalife products and participate in the club's supportive social elements.

In addition to the increased adoption of the commercial club model, and the 100 city wellness tour held earlier this year, over 28,000 members and sales leaders attended the two extravaganzas in they Mexico City and Guadalajara. As with all our member events, these were used to educate, empower and emphasize Herbalife's mission for nutrition. Let's move on you now to China where local currency net sales increased 70 percent and volume points grew 71 percent in the third quarter, each as compared to the prior year period. Average active sales leaders increased 25 percent over the same period last year.

China's volume point per capita penetration for the last 12 months was about 0.2. We believe that the strong utilization of daily consumption business methods, the implementation of first order limits, and the adoption of the 5K requalification method in China have created a strong base for the market's growth. We are pleased to see member leadership united in their efforts to create thriving and stable businesses, based on daily consumption and excellent customer focus.

Now the Asia-Pacific region. In the third quarter, this region experienced a 1 percent increase in local currency net sales and a 3 percent decline in volume points, each as compared to the prior year period. Average active sales leaders with volume grew by 10 percent, and new members grew 4 percent over the same quarter last year. The volume point per capita penetration in this region for the last 12 months was around 0.6.

Two markets in the Asia-Pacific region, Korea and India, together now represent about 50 percent of the total volume points in the region. Korea

remains a top Asia-Pacific market with per capita volume point penetration of 9.2. Lapping difficult comparisons from prior periods, local currency net sales decreased 0.2 percent as compared to third quarter of 2012. We continue to see united leadership and solid member engagement in Korea which are characteristic of a strong, sustainable market.

In India, local currency net sales grew 6 percent over the same quarter last year. Since the introduction of first order limits in March, there have been notable increases in the number and percentage of sales leaders with volume including a 17 percent growth in active sales leaders in the third quarter over prior year. Moreover, the percentage of sales leader qualifications through the 5K method has almost doubled compared to last year, indicating more stable consumption-based growth.

In Indonesia, local currency sales increased 61 percent and average active sales leaders increased 67 percent, both as compared to the same quarter prior year. We believe that the expansion of daily consumption DMOs has positively supported this market's expansion.

Local currency net sales in the south and central American region increased 53 percent, and volume points in the region were up 32 percent, each as compared to the third quarter of 2012. Average sales leaders with volume points in the region increased 29 percent and new members increased 28 percent over last year's third quarter. The per capita volume point penetration in this region for the last 12 months was 1.9.

We believe that the expanded use of the 5K sales leader qualification method in South and Central American markets as well as the collaborative efforts of our sales leaders have contributed significantly to the region's growth. Venezuela experienced a 49 percent increase in average active sales leaders and a 54 percent increase in new members, each as compared to third quarter 2012. During this period, Herbalife Venezuela signed sponsorship agreements with two leading new professional soccer teams.

These teams represent the professionalism, commitment and values of the Company. Within the country, Herbalife has also been a key sponsor of

Venezuelan football federations and of the junior soccer program that benefits more than 30,000 young athletes. In Brazil, volume points grew 22 percent and average active sales leaders grew 23 percent in the third quarter, each as compared to the same period prior year.

Catalysts for growth included new local product launches, a prominent team school event with over 5,000 attendees and our members' ongoing adoption of successful nutrition club practices. Local currency net sales increased 21 percent, and volume points in the region grew 19 percent each as compared to the third quarter of 2012. Average active sales leaders with volume points in the region was up 13 percent and new members advanced 40 percent over the prior year period. Per capita volume point penetration in this region over the last 12 months was approximately 0.7.

Member commitment and excitement surrounding the Herbalife business were evident in the region's highly attended extravaganzas, improved product access, localized daily methods of operations, and the emergence of the younger, more athletic base representative of the Herbalife's 24 brands contributed to the region's performance.

In Russia, volume points increased 25 percent and local currency net sales increased 31 percent, each over the same quarter last year. We believe that our leadership's approach to member training, city by city strategies and focus on brand efforts has increased market recognition and encouraged the growth of numerous commercial nutrition clubs.

Within EMEA, the UK market continued its exemplary performance. This quarter we experienced a 95 percent growth in volume and a 67 percent increase in average active sales leaders, each as compared to the same period last year. The complementary business methods of weight loss challenges and nutrition clubs are driving both member and consumer attention as wells as enhancing participation. Nearby markets have taken note of the UK's growth and are enthusiastic about localizing similar business practices.

UK sales leaders qualifying through the 5K method continued to trend upward with approximately three out of every four new sales leaders utilizing this

method to steadily build their businesses. In closing, I want to thank all our members and sales leaders for another great quarter.

Their resolve, dedication, and passion for their work have carried Herbalife's message and value to customers all around the world. As a result of their efforts, Herbalife is contributing to enhanced public health in communities everywhere through improved nutrition and the promotion of a healthy, active lifestyle.

John DeSimone: Thank you, Des. Before reviewing our third quarter financial performance and the full year 2013 and 2014 guidance provided in yesterday's announcement, let me provide a brief update on the reaudits.

Yesterday we filed our third quarter 10-Q in the same method we did last quarter without the FAS 100 review and therefore without the required SOC 906 certifications. The 10-Q is complete in all other respects including SOC's 302 CEO and CFO certifications as to the accuracy of the financial information.

When the reorders are completed, the 10-Q will be amended with the 906 certifications to reflect that a FAS 100 review has been completed by PWC as part of their reaudits of the prior three years.

Management and the order committee of the Board believe that the financial statements covered in the referenced periods fairly present in all material respects the financial condition and results of operations of the Company as at the end of and for the referenced periods and they continue to be relied upon and that the Company's internal control over financial reporting was effective during these periods.

With respect to the progress of the re-audits of 2010 through 2012, and FAS 100 reviews of each of the first three quarters of 2013, as we stated last quarter we expect these to be completed and up-to-date no later than the end of this calendar year.

Moving to a review of our financial results, yesterday we reported third quarter net sales of \$1.2 billion, representing an increase of 19.3 percent

compared to the third quarter of 2012. Local currency net sales for the period increased 20.5 percent with an unfavorable FX impact of 1.2 percent as compared to the same period last year.

Des has already provided significant detail around our volume point and net sales results by region and by key country so I'll move on to margins. Our gross profit margin for the third quarter increased approximately 20 basis points compared to the third quarter of 2012. The net increase to gross margin was primarily due to the favorable impact of country mix and price increases, which were partially offset by higher inventory reserves and other costs.

Before moving to SG&A and operating margins, note that our reported third quarter results included some unusual items that we consider to be outside the range of normal operations. We have therefore excluded these expenses from our adjusted third quarter results. They are as follows.

\$6.3 million of pretax expenses or \$0.05 per share related to expenses incurred responding to the tax on the Company's business model. And \$6.2 million of pretax expenses or \$0.04 per share of one time costs incurred during the quarter associated with our re-audits. These costs may ultimately be recovered but until a definitive agreement is in place, the costs will be expensed as incurred as will any recovery.

We expect to continue to call out this item in the future. The following comments regarding the Company's third quarter operating margin affect the tax rate and EPS all exclude these two adjusted items. Third quarter adjusted operating margin of 16.9 percent increased by approximately 104 basis points compared to the prior year.

This increase was primarily due to lower SG&A expenses as a percent of sales excluding China service provider expenses and higher gross margin expressed earlier. Within SG&A, last year's third quarter included \$4.5 million for a sales event which this year occurs during the fourth quarter. This timing item is reflected in our Q4 guidance.

Next let's move on to our effective tax rate. Our third quarter adjusted effective tax rate was approximately 500 basis points lower than our effective

rate for Q3 2012 but in line with the guidance we provided in July. The variance to prior year is primarily due to the expected benefit from the sweet items partially offset by shifts in our geographic mix. Third quarter adjusted earnings per share of \$1.41 was \$0.43 or 44 percent higher than our earnings per share from third quarter of 2012.

As previously noted improvement was primarily driven by growth in sales, a decrease in our effective tax rate and a lower share base due to our ongoing share buyback activity. Comparing third quarter adjusted EPS to the previous guidance provided in July, adjusted EPS of \$1.41 was \$0.28 per share higher than the high end of the guidance range. This beat was mainly driven by lower expenses including \$0.03 of delayed investment which we have rephased into the balance of the year, as well as by top line performance.

Before I discuss the new guidance provided for 2013 and introduce to 2014, I want to note a couple of assumptions. With respect to Venezuela, our guidance continues to assume a rate of 10 to one for the balance of 2013 and for full year 2014 and does not include any further charges or write-downs associated with our Venezuelan operations of Bolivar denominated cash.

Our guidance also excludes any ongoing expenses incurred responding to attacks on the Company's business model and the related expenses, and any recoveries of such costs. In the third quarter these pretax costs were approximately \$6.3 million, and \$6.2 million respectively.

For all currency assumptions we have used the average closing exchange rates during the first two weeks of October with the exception of Venezuela as previously noted. The currency rates assumed in our current guidance reflect movements that are slightly favorable to the rates used a quarter ago with a \$0.02 per share benefit to our Q4 guidance. Was essentially offset by an expected higher effective tax rate.

From a volume point perspective we are raising our full year 2013 volume growth expectation by 100 basis points to the low end and now the overall range compared to the previous guidance and now expect volume point

growth in the range of 12.5 percent to 13 percent. For the fourth time this year, we are raising our adjusted EPS guidance for 2013.

We are taking the low end of the previous range up \$0.36 per share and the high end up \$0.28 per share. We now expect adjusted EPS to be in the range of \$5.19 to \$5.23.

The full year adjusted EPS guidance includes a year-over-year currency headwind of approximately \$0.25 per share. For the fourth quarter we are providing initial guidance for volume point growth of 10.5 percent to 12.5 percent which is on top of a strong 18 percent and 23 percent volume growth we experienced in Q4 of both 2012 and 2011 respectively. Adjusted EPS in the fourth quarter is expected to be between \$1.11 and \$1.15.

We are also introducing full year 2014 guidance. For the full fiscal year, we expect volume point growth to be between 6.5 percent and 8.5 percent over prior year performance. Adjusted EPS for the year is guided in the range of \$5.45 to \$5.65, reflecting net sales growth of 9 percent to 11 percent over 2013 results. Couple of items to note regarding 2014 guidance.

There's a currency headwind of approximately \$0.14 which excludes Venezuela. Venezuela's volume is expected to be reduced by approximately 100 million volume points in reaction to the economic and currency situation in country and is included in guidance with an exchange rate of 10 to one.

The combined impact of these two Venezuela items as reflected in our 2014 guidance is a negative 200 basis point impact to overall Company volume point growth compared to 2013 and negative \$0.06 EPS impact compared to 2013. The tax rate for 2014 is expected to increase by approximately 200 basis points with an EPS impact of approximately \$0.20.

And the new East Coast manufacturing facility which is on track to begin operations in the middle of 2014 is expected to be slightly diluted next year by \$0.03. Finally, let me address our share buyback program.

During the third quarter we repurchased 1.7 million common shares at an aggregate cost of \$110 million, \$60 million than included in our previous

guidance. Similar to last quarter, our fourth quarter guidance includes \$50 million in share repurchase.

With respect to 2014, we are not guiding anything specific regarding buyback at this time. As I stated earlier, it is our expectation that our reaudit will be completed during the fourth quarter and once completed we will evaluate the best approach towards share repurchases in 2014.

Since the inception of our share repurchase program in 2007, we have repurchased more than \$1.8 billion in stock. From a net debt perspective at the end of Q3 excluding cash in Venezuela, we have net debt of less than \$250 million and reported trailing 12 month EBITDA of approximately \$800 million in cash flow from operations in excess of \$700 million.

Thank you. This ends our prepared comments. We'll now open up the call for your questions.

Operator: Our first question comes from the line of Meredith Adler with Barclays.

Michael Johnson: Hi, Meredith.

Meredith Adler: Sorry, I was on mute. I was wondering if you could talk a little bit about the development of commercial clubs. I am somewhat new to the story but clearly that's a whole evolution of the nutrition centers. So maybe if you could just talk a little bit about how you see that developing.

Des Walsh: Hi, Meredith this is, Des, so happy to take that one. So obviously Meredith we are excited about the evolution of the clubs in various concepts.

The commercial clubs give the opportunity for our members to invite a significantly greater number of customers and therefore increase the number of daily consumptions but in addition the commercial clubs provide the opportunity for a range of other support services. So we see weight loss challenges, we see fit camps, that we feel like (opportunity) meetings, it provides great opportunity for distributor training and activity.

So what we see in the commercial clubs is simply greater levels of distributor engagement and increased levels of social activity. And I think, as you know Meredith, as you visited the clubs the full elements of success in the clubs are first of all product results but then it's socializing sense of community recognition and in all those respect the commercial clubs provide a greater opportunity.

Meredith Adler: And I guess I was also trying to understand how does the market start to move towards commercial clubs and away from the personal clubs? What is it that sparks that?

Des Walsh: So as with everything our distributors fuel our success. So basically where you have distributors who have migrated from home clubs to commercial clubs, their business expands for all the reasons I just mentioned, and that spurs other members, other distributors to take the same course.

Meredith Adler: Okay, and then maybe just I would like to talk a little bit about pricing. I mean you did say that that helped the margin a little bit, maybe just talk a little bit about what you were doing in relation to pricing and is it market specific related to currency or other factors?

John DeSimone: It is John here. Pricing is market specific and any impact from price increases is based on the economic conditions in the marketplace. Inflation plays a big role in that and part of our pricing benefit is driven by price increases in Venezuela which is hyper inflationary and they had substantial price increases during the year.

Meredith Adler: Okay and then I guess I just had one more question about, I know there are issues in both China and India, I believe in how you operate the business. Have there been any challenges in any other markets saying that you can't use a distributor model, you know or anything like that?

Des Walsh: Meredith I am not sure what you are referring because frankly aside from our normal commercial challenges there are no issues in China or India. 0In China as you know we recently received another license and as anytime we get licenses in China part of the process is the central government goes out to all of the existing provinces in which we have licenses and asks for local officials

to give us sort of good (health and seal) approval on based on that any further licensees are granted.

So China is probably the most regulated market in which we operate. It is a different model there from the rest of the world but obviously we are very comfortable with our business in China, while at the same time remaining cautious simply because it is China.

As far as India I think you maybe referencing some of our competitors who faced certain challenges in certain states but from Herbalife's perspective we have complete confidence in terms of our business there, and the evolution of our business model. Our growth in both, this quarter is reflection of our position and success both in China and in India.

Meredith Adler: And I will just ask one more question. There is certainly been news about regulators asking regulators to do a review. Have you gotten any kind of indication from any government body wanting to do a review of your business?

John DeSimone: Meredith, this is John. We just published our 10-Q. We take our disclosure seriously and any material information relating to regulator activity is included in the Q.

Meredith Adler: Okay, thank you.

Operator: Our next question comes from the line of Tim Ramey with D.A. Davidson.

Tim Ramey: Hi, good morning, thanks so much. Yes if we could drill down on China, was just out in select city, with NuSkin's event last week and one of the things they said which I thought was a complement was on they might try mutate their model to look a little bit like Amway's and yours. And remember how we see the tremendous traction that you've developed there when I spoke to John DeSimone last night he said you would no longer use the word cautious, you just did but relative to company or country specific challenges I guess.

But long question but can you expand on kind of where you are at on this relatively hyperbolic growth curve that we see, other companies certainly experiencing, NuSkin being one and what your opportunity looks like ahead?

Des Walsh: Sure, so Tim and in relation to China you will always hear us use the word cautious but purely in relation to the fact that it's China, not in relation to our business. Our business in China is absolutely solid and so when we hear NuSkin or anybody talk in complementary terms about our business in China, what I think they are referencing is the fact that our business in China is solidly based on daily consumption.

We have very high activity levels, you'll see that we report not just significant increase in volume points in China but another significant increase in terms of sales leader activity. And for us that's the critical metric of the business, because what we see when we have significant levels of sales leader activity that's what drives retention and that's a key indicator for us.

Also in Chin we see more people qualifying at various levels based on daily consumption, on consistency in their business. And so we are very optimistic about what we see in China but we've still always will say it's China. So hope that helps Tim.

Tim Ramey: Sure. Well, I mean it is impressive to see I think what sales leaders are up 25% and volume up 70%, that kind of leverage is unique to that model perhaps.

John we need to drill down a little bit on more share repurchase, you are certainly not constrained by resources, at least in the near to medium term and yet your share repurchases has been moderate the last couple of quarters, above your target in the third quarter but certainly moderate relative to your resources you have net cash and so on.

Can you talk through your mindset on why you've chosen to be conservative?

John DeSimone: I am not sure I fully agree with the characterization but I certainly understand why some people might think it was conservative.

Tim Ramey: You have a debt free balance sheet, that's conservative right?

John DeSimone: Well, I mean we bought \$110 million of stock, but let me answer the question I think as we are in the middle of a re-audit. That re-audit we believe is near completion and that opens up a lot of additional opportunities for us and we will evaluate the best use of share repurchase once the re-audit is complete.

Tim Ramey: Okay. Any reason to think that your comments on the first quarter call where you discussed potentially using leverage to step up the share repurchase and any reason you think the company would be thinking differently about that in the eventuality that the audit is completed or so?

John DeSimone: Tim as you know we were a big fan of share buyback. We have done \$1.8 million over the last five years. We think it's an effective way to return money to shareholders.

We had mentioned that right after the KPMG issue was announced that we were in the middle of looking to do a debt deal. That debt deal was based on economics and any future capital restructuring would be based on economics also.

Tim Ramey: Awesome, thanks so much.

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

Michael Swartz: Hey good morning everyone. John just to clarify did you say that 2014 guidance does not include any share repurchases not even the 50 per quarter?

John DeSimone: That's correct. We will evaluate after we get the re-audits done as to the best use of cash and appropriate capital structure and then we'll provide guidance at that point.

Michael Swartz: Okay and maybe you can provide us with an update on how the new manufacturing facility in North Carolina is progressing and maybe as part of that, I mean, how do you look at I guess cost savings if there are any from that facility? I know you said it was going to be a startup cost were going to be

about \$0.03 dragged during 2014. But are there any kind of offsetting benefits you are getting?

John DeSimone: Let me answer the first part of that question which is the factory is on time, it's on budget. It's expected to come up in the middle of 2014 June, July time frame.

A lot of that CapEx happens in Q4 and/or Q1, there is a lot of timing right around year end that could fall either way. Once that factory starts up we expect the first three months it will operate at a loss the next there actually it will operate at a profit.

The way the accounting works is there is a lag between the operating results and how it flows through the P&L has to mean inventory turn. So certainly you can have us in the first three months of facility operations we will roll out in the fourth quarter and that will be negative and then we expect to benefit in '15. And as we get closer to that point in time we'll communicate what that benefit is from an EPS standpoint.

Michael Swarts: Okay, great. Thank you.

Operator: Your next question comes from the line of Scott Van Winkle with Canaccord.

Scott Van Winkle: Thanks, a quick question on China, the 25% sales leader growth versus the 71% revenue growth, is that driven or that disparity driven by the daily consumption model or is last year, I think those two numbers were reversed?

Des Walsh: Exactly, that sort of represents stock and again another indication of the strength and stability of our business there.

Scott Van Winkle: Okay. And then on the training that you are talking about by the end of next year, how is that, how does that occur, is that an online based thing or are we going to expect to see Herbalife with a field staff?

John DeSimone: Scott, this is John. There are two things. One is in the U.S. that training happens this year, will be implemented this year and at various markets it will be implemented throughout the year, next year and complete globally by the

end of next year. It will be online and it will be over the phone, there's different options utilizing the current staff that we have, creating a track able test based training program.

Scott Van Winkle: So that's interesting, because I would think today new members or distributors come on, they don't necessarily have a direct connection with Herbalife. In the future they will all have some type of connection to corporate is that correct?

John DeSimone: Well in the future they will certainly all have to acknowledge they've been made aware of our core protections. Otherwise they will not be order product. The way the training is designed it's designed to provide different information to different members based on their individual goals and objectives and performance.

So when you join initially as a member you have to be aware of the protections. As you become a sales leader and now you are becoming eligible for multi-level compensation there is going to be a required training on the key dos and don'ts of MLM. So it won't be for everybody, it will for those people that are moving up to the sales leader position.

Scott Van Winkle: Got you, great. And then John on the Venezuela guidance for next year, talking about volume point declines on next year. Is that just purely driven by the fact that you think you are going to accelerate price increases because of the currency situation or there was something broader?

John DeSimone: Well it all is in reaction to the economic climate and currency situation in Venezuela. There will be pricing increases per share that will impact volume and there could be some supply issues that could impact volumes. So it's a little uncertain as exactly what that impact will be.

So the assumption at this point in time is going to result in a reduction in volume points by about \$100 million, little over 100 million volume points?

Scott Van Winkle: Okay. And then the last question, the last 10 months since you first had the negative publicity, this U.S. market has performed quite well. Has there been anything beyond member communication and training? Have you spent any

advertising and marketing dollars, kind of broader against the U.S. market beyond sponsorships and the stuff you've always done?

Des Walsh:

Scott not at all because we haven't felt that it's necessary. I mean the reality as you've seen that our business in the U.S. has remained strong, volume point growth in the third quarter of 10%, more people consuming shakes every single day, nutrition's up throughout the country. Our distributors have never been more focused, never been more resilient.

We've a solid consumption-based business model and so frankly it's what's happening on Wall Street is frankly immaterial to the overwhelming majority of our customers, our members and distributors throughout the U.S.

Scott Van Winkle: Great, thank you very much.

Des Walsh: Sure.

Operator: The next question comes from the line of Sandy Chen with Visteon Asset Management.

Sandy Chen: Hi, I have a couple of questions. I think the first one is your 2014 guidance appears somewhat conservative. Can you just discuss what your guidance would have been if you x out FX and the Venezuela impact?

John DeSimone: Yeah I think I gave some of the information in the script let me repeat it. The impact of the volume point reduction in Venezuela was 200 basis points in sales growth, beyond that it was \$0.14 headwind from currency outside of Venezuela.

Two-thirds of that \$0.14 came from two countries, the Brazilian real and the Mexican Peso. There was approximate \$0.20 headwind from tax rate we are expecting to increase next year and then a little dilution from HIM and of course no buyback built-in.

Sandy Chen: Right. So it's about a \$0.40 impact to where your guidance is versus this variable, is that about right?

John DeSimone: Yeah I think it might have been \$0.37 somewhere in that range without the volume point change in Venezuela.

Sandy Chen: Got it. And that tax rate that also seems conservative because as you are growing in China won't your tax rates come down?

John DeSimone: Effective tax rate in China, last year's rate at 25% is not that materially different from the overall corporate rate.

Sandy Chen: Got it. Okay. And kind of a weird housekeeping question. Your website talks about your shares outstanding at, the float at 70.33 million and that's sourced from Morningstar. But I look at Bloomberg I see 77 million shares.

Morningstar actually say that they don't pick out yet, you are the fourth largest shareholder, who's holding about 5 million shares. So I would think the float's actually 65 million shares outstanding. Is that correct? What number the right number to be thinking about?

John DeSimone: I look at share base before the impact of any equity and that's a little over 100 million. I think you might use a different definition for float but I have no other insight other than what's out there on various services.

Sandy Chen: Well, kind of your website says 70.33?

John DeSimone: It's just sourced from a service right, there's no work that we put into it.

Sandy Chen: Right. But and that sourced from Morningstar but that 70 million fewer than Bloomberg and that's still 5 million higher than what Morningstar says about your fourth shareholder?

John DeSimone: So I don't know the answer to your question specifically, let look at that. We will get back to you Sandy.

Sandy Chen: All right. Okay. And is there any chance that the audit won't be complete by year end?

John DeSimone: Well it's our expectation that it will be complete by year end but it's not done till it's done.

Sandy Chen: So essentially eight weeks hence you expect to have all that information complete and available.

John DeSimone: That is our expectation. Correct.

Sandy Chen: And my last question is, is there an amount of recovery amount you can discuss, from I guess settling with KPMG?

John DeSimone: We are there yet, right now we are focused on getting the audit done soon and we expect some element of recovery but we have not begun those conversations.

Sandy Chen: So timeline is audit, talk about your share repurchases and then provide information on KPMG?

John DeSimone: I think those are not necessarily related but I think, yeah I guess they are all related to getting the audit done so some maybe that's an unfair comment on my part but yes we've got to get the audit done first.

Sandy Chen: Great. Thank you so much.

Operator: There are no further questions at this time.

Michael Johnson: So everybody I just want to say thank you to everybody on the team of Herbalife family, our incredible board, our members and sales leaders.

There are millions of customers around the world as you know are using our products daily to improve their nutrition and health and are responsible for this exceptional growth that we continue to report on a global basis, and of course our employees.

Despite this public market distraction somebody give me a call this week and said it's useless to attempt to reason demand out of the thing, it was reasoned into and that seems to sum up this temporary distraction. Our focus remains on supporting our members.

We are going to implement the numerous growth and infrastructure strategy that we outlined for you and we believe this is going to help us deliver ongoing strong finance performance, 33 years deep into the future. Thank you guys very much.

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

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