

**HERBALIFE INTERNATIONAL OF AMERICA, INC**

**Moderator: Brett Chapman**  
**July 31, 2012**  
**11:00 a.m. ET**

Operator

Good morning and thank you for joining the second quarter 2012 earnings conference call for Herbalife Limited. 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 General Counsel.

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 statement. These statements involve risk and uncertainty and, 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 comparing period-to-

period results of operations and a more meaningful and consistent manner. Please refer to the Investor Relations section of our website, [www.herbalife.com](http://www.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:

Thanks, Brett. Good morning, everyone, and welcome to our second quarter 2012 earnings conference call.

As you know, it's been a unique quarter but the results that we are going to discuss today demonstrate that the noise of the past few months has been outside, not inside of Herbalife. As a testament to the strength of our distributors and our business, we are happy to report another record quarter. We continue to demonstrate financial performance with another record quarter and, for the first time in our 32 year history, our net sales topped \$1 billion in a quarter, that's up 17%. Volume points of 1.2 billion increased by 23% over the prior year's second quarter and EPS is \$1.10, a 25% increase.

Our growth continues to be very broad-based. Each of our six regions experienced strong double digit volume point growth in the quarter. Five of our regions, Asia, North America, Mexico, China, South and Central America exceeded 15% volume growth. EMEA had a 13% increase in volume points. Average active sales leaders increased 24% in the quarter and Des will provide more color around these regional results in just a minute.

Our financial performance has never been stronger. The consistency of our growth and financial results is due to the dedication and hard work of everyone at team Herbalife. So I want to thank you to our independent distributors and to our employees around the world for another record performance.

You know, for more than 32 years Herbalife independent distributors and employees have been helping millions of people achieve their weight management and nutrition goals. This has always been the culture of Herbalife and good nutrition has never been more relevant or important than now.

Obesity continues to be a major health issue around the world and 64% of our sales are in the weight management category. A new Cornell University study has found that in the US alone, obesity now accounts for almost 21%, more than \$190 billion of all of our healthcare costs, which is more than two times larger than prior estimates. At Herbalife, fighting obesity is job one. Our Formula 1 shake is the number one meal replacement shake in the world with more than 30% of market share, according to Euromonitor data. And in 32 years we have, and are continuing to help millions of people reach and maintain a healthy weight.

Over the past several years, a growing portion of our business has been driven by our distributors around the world moving to daily consumption business methods with long-term sustainable customers. We believe that daily consumption business methods now generate approximately 40% of our volume. With more than 36,000 nonresidential nutrition clubs operated by our distributors around the world, Herbalife products and distributors are more accessible to more customers than ever before. Many investors on this call and all of our Wall Street analysts have been into clubs throughout the US and, in some cases, Mexico, Brazil or even Russia, and they can attest to the fact that there are more customers enjoying Herbalife products on a more frequent basis than ever before.

The success our distributors are having continues to be driven by our high touch, frequent contact business methods. This is changed how we go to market as well as how we look at the business. We believe that direct selling is the best model for our product portfolio. You've heard Des discuss the circle of success in the past. Our weight management nutritional supplement and sports performance products are best sold, we believe, person-to-person.

Our distributors testimonial about his or her personal use can speak to the benefits of consuming our product. It all starts with product which drives the

results and creates the passion that our distributors convey to their customers. Our product line today is stronger than it ever has been. Our heart-health line is developed by a [Nobel Laureate]. Our premium sports line is desired by athletes around the world. Our Herbalife24 Rebuild Strength was recently rewarded the best triathlete protein shake by Triathlon Magazine.

We have established a world class supply chain and manufacturing process to develop and ensure that we continue to deliver the highest quality product to our distributors. While the independent nature of our sales force makes it challenging for us to have visibility into distributors daily or monthly customers, we're doing more customer research and we'll be providing more statistics so investors can have complete confidence in the level of consumption in the marketplace.

Today, for example, we know that 20% of our US volume is shipped directly from Herbalife to the end consumer, who is not a distributor. And 30% to 35% of our volume in the US is sold directly to consumers through nutrition clubs. So over half of our US volume is going to the end consumer through these two business methods and this doesn't include volume from our traditional person-to-person selling method.

We recently engaged Lieberman Worldwide Research, one of the top market research companies in the world, to conduct a survey to develop a better understanding of Herbalife consumers in the US. This survey reported there are approximately 5.6 million US households that bought Herbalife products in the last 90 days. Of this number, less than 10% of the households said they were an Herbalife distributor. This further validates the degree to which daily consumption business methods have expanded the consumption of Herbalife products among a broader segment of the US population. We have contracted with Lieberman to repeat this survey on a quarterly basis and look forward to having more information to share with you in subsequent quarters.

Building a recognized and respected brand and image is a process in which our distributors, employees and vendors all participate. We are on a mission to build our Company to be the best at everything we do. We are building tremendous positive recognition for our brand this summer through our

sponsorship of the Herbalife World Football Challenge, one of the largest and most successful soccer exhibition ever staged in North America. And it's bringing together many of the world's most accomplished and celebrated soccer clubs to play in major sports venues across our nation.

As we continue to foster the transformation of our business, our distributors are leading the way through daily consumption, deeper city penetration, increased engagement and they are living and wearing the brand in cities all over the world. We are working every day to build a better Herbalife.

Thank you. And now let me turn the call over to Des.

Des Walsh:

Thank you, Michael.

The second quarter is our fourth consecutive quarter of more than one billion volume points and was 23% higher than last year's second quarter results and is now the highest volume quarter in Herbalife's history. As Michael mentioned, we continue to be very pleased with the momentum we see in the underlying trends in our business as all six regions posted strong double-digit volume point growth.

The main driver of our growth continues to be the consistent execution of the business methods that we have been discussing with you all for the past several years. The adoption and expansion of daily consumption business methods, augmented with the expanded use of systemized training methods. And our city-by-city approach continues to localize the Herbalife opportunity and distributor support. Daily consumption business methods not only drive increased distributor engagement, they also drive increased consumer engagement. One key characteristic of daily consumption business methods, whether nutrition clubs, weight loss challenges or distributor-led fitness camps, is that the distributor and their consumer have much more frequent contact than is normal for traditional direct sellers.

For those on this call that have visited nutrition clubs or participated in a fit camp or a 12-week weight loss challenge, you have seen that while the

product and product results are the main drivers, the social elements of the clubs, the fit camps and weight loss challenges is also very important. Whether it is the Gen H crowd or the fit camp, a group of mothers meeting up with their health coach in a nutrition club after dropping children off at preschool or the regulars at a weight loss challenge, it is the stickiness of these daily consumption models that is increasing distributor productivity and helping to drive growth.

We estimate that in the second quarter of 2012, there were approximately 36,400 commercial or nonresidential clubs. As we had mentioned in the past, we believe approximately 34% to 41% of our overall volume is currently driven by daily consumption business methods. Distributor engagement continues to be strong as evidenced by the average active sales leader growth of 24% this quarter. This is our sixth consecutive period of greater than 20% growth in this metric, which we believe speaks to the sustained momentum in our business.

Now, let me provide regional highlights and color on some key regions. The North America region had another strong quarter, posting almost 21% net sales and local currency net sales growth and 22% growth in volume points, each compared to the prior year period. New distributors increased 7% in the quarter and average active sales leaders increased 18% in the North America region, compared to last year's second quarter results. We estimate that there are approximately 3,700 commercial nutrition clubs in the region.

For the quarter, US net sales grew 22% and volume points increased 18% versus the same quarter last year. Compared to the prior year period, new distributors in the US increased 7% and average active sales leaders increased 18%. The growth in the US continues to be driven by the expansion of daily consumption business methods, particularly in the general market segment of the business building on the continued successes of our Latino business.

In the US, we are seeing continued momentum in business growth and the Generation H distributor group, our name for those distributors under 35 years old. We are seeing very exciting adaptations of the nutrition clubs spring up through this group with a higher utilization of the Herbalife24 products and

brand, in addition to stronger use of social networking. These distributors are using their clubs to reinforce the healthy, active lifestyle element of the Herbalife brand.

We are continuing to see longstanding distributors begin to reengage, often incorporating nutrition clubs and other daily consumption business methods into their daily methods of operation. As we have discussed before, within the distributor base, success often begets success. As more distributors are seeing like-minded distributors having success with different business methods, they too are inclined to also incorporate those methods into their business.

Moving on to Mexico, local currency net sales for the quarter increased 21% and volume points increased 17%, each as compared to the prior year period. For the second quarter, new distributors increased 6% compared to the prior year and average active sales leaders increased 21% for the quarter. This is the sixth consecutive quarter that the region has posted an increase in average active sales leaders greater than 20% over the comparable period of the prior year.

As we have discussed in prior quarters, we are continuing to see more distributors in Mexico adopt a nonresidential nutrition club model, which is helping to expand consumer access to clubs and Herbalife product. In Mexico, we estimate that there are currently about 12,600 nonresidential nutrition clubs.

As part of our product regionalization strategy, we have launched a couple of new products in Mexico that were designed to appeal to nutrition club customers -- a shake additive called Extra and two facial wipes, one cleansing and one for hydrating the face, which can be dispensed one at a time. This is a means of introducing skin care products into the daily consumption model at a price point that is accessible to the club consumer in a market like Mexico.

The Asia-Pacific region continues to grow. During the second quarter, local currency net sales increased 34% and volume points grew 29%, each as compared to the prior year period. For the second quarter, new distributors increased 40% versus the prior year. The growth within the region continues

to be driven by the expansion of daily consumption business methods and the high degree of distributor engagement. Average active sales leaders increased 35% in the quarter over the same quarter in 2011.

While we continue to see strong growth out of both Korea and India, we are very pleased with the growth of the other markets within the region, particularly Indonesia and Malaysia -- two countries that experienced volume point increases of over 100% and over 40%, respectively, compared to the prior year period. Indonesia is a market that is benefiting from all three business initiatives, helping to create a strong foundation from the early stages of growth, the proliferation of daily consumption business methods, systemized training and regionalized sales support. In India we continue to work with our distributor leadership to ensure the distributor training keeps pace with the strong growth we continue to see in that country.

Applying these city-by-city tactics within the Asia-Pacific region, we've identified a significant number of potential subregions where over the next several years we are seeking to place localized sales support that will work along side distributor leadership to help support daily consumption and systemized training programs. Within the Asia-Pacific region, we estimate that there are approximately 9,700 nonresidential nutrition clubs.

During the quarter, Asia-Pacific hosted their two regional extravaganzas where we saw a total of 45,000 people in Seoul and Singapore. Illustrative of the strong growth that the region has been seeing. Last year we had only one extravaganza with 22,000 attendees compared to this year's two events with more than twice as many attendees.

Local currency net sales in the South and Central America region increased 30% and volume points in the region were up 30% also, each as compared to the second quarter of 2011. Average active sales leaders in the region increased 27% over last year's second quarter. New distributors increased 48% for the quarter, compared to the prior year period. 16 of 17 countries in the region posted positive volume growth compared to the prior year.



The lower priced IBP tests that we ran last year in the region was determined to have been beneficial to the long-term growth of the market. We decided that before we could make any final decisions about the utilization of the program on a more permanent basis, we should run the trial for a longer period of time. Therefore, we will be testing the lower priced IBP through the remainder of 2012 in all countries in the region, except Brazil.

One of the things that we continue to be pleased with the in South American region is that daily consumption is moving out of the early adopter markets in the region and is now driving sales throughout numerous countries in the region. All but one market in the region posted positive volume point growth in the quarter, which we believe illustrates how the momentum behind daily consumption can continue to drive growth in the marketplace. We estimate that there are approximately 7,900 nonresidential nutrition clubs in the region as of June 30, 2012.

Within the South and Central American region we need to mention the stability we continue to see in Brazil. Brazil experienced volume point growth of approximately 6% in the second quarter as both nutrition clubs and traditional business methods continue to experience growth.

Turning to EMEA, during the second quarter, local currency net sales increased approximately 11% and volume points in the region grew 13% compared to the same period in the prior year. New distributors for the second quarter increased 7% over the prior year period. Average active sales leaders in the region were up 14% in the quarter, each as compared to the second quarter 2011. We estimate that there were approximately 1,300 nonresidential clubs at the end of second quarter, of which approximately 50% are located in Russia.

Within EMEA, Russia had another amazing quarter. Compared to the second quarter 2011, this quarter's volume points were up approximately 53% with a 25% increase in new distributors. Russia continues to be a market that exemplifies the benefits of the market built on daily consumption, systemized training and a unified distributor leadership group and a city-by-city focus. It

has had strong volume growth for the past nine consecutive quarters and new distributor growth for the past seven consecutive quarters.

As we reported two quarters ago, this is also a market that's had annual sales leader retention of 77% compared to our Company average of 52%. The strength of these core metrics illustrate the benefits created by building a business on a strong, stable foundation, grounded in daily consumption, coupled with systemized training and a local focus, city-by-city.

We were encouraged by the continued success by weight challenge throughout countries in Western Europe and the growth of nutrition clubs in more southern markets. And like the US, we believe that we are seeing a younger, athletic distributor group in Western Europe really embrace the Herbalife24 product and brand through adaptations of daily consumption that embrace the healthy, active lifestyle. Throughout the second quarter, we had numerous distributor groups from different areas of the EMEA region visiting Gen H distributors in the US, investigating and learning about their business methods.

We are often asked about daily consumption and growth in Western Europe. The UK is a good example of how daily consumption can begin to change a market. This quarter, we experienced almost 60% growth in volume and a 51% increase in new distributors in the UK -- our oldest market in the EMEA region, largely driven by the success of the weight loss challenge concept and the distributor's focus on a healthy, active lifestyle.

Now let's turn to China, where local currency net sales increased 46% and volume points grew 54% in the second quarter, compared to the prior year period. While we continue to believe that our sales leaders in China are making progress at culturing the concept of daily consumption, we believe that we are still working to fine tune the nuances of the daily consumption model that will work best in the market. We continue to see more nutrition clubs open and while we are very pleased with the progress of the business in China, we remain cautious about expecting too much, too soon, from this market. We are focused there on building a sustainable business on a solid foundation of long-term customers.

In June, we began testing the 1,500 volume point first order limit in China and we are adding a couple of other markets to this test this month. We are excited about the benefits for enhanced retention and productivity which this program can represent for our business. We estimate that there were approximately 1,200 nutrition clubs in China as of the second quarter. One of the key drivers to the growth in the region during the second quarter was an increase in productivity of the existing clubs through the expansion of the customer base.

Before I turn the call over to John, let me take a minute to applaud our distributors for another very strong quarter. This quarter's results were a testament to their engagement, their resilience and their continued focus on creating and mentoring new customers for our products every day and over time, converting many of those product users to distributors who go on to do the same. We believe that the momentum we have seen in our business due to the tremendous daily consumption-based performance of our distributors, supported by enhanced systemized training and our regionalization initiative, will continue and that there's a long runway of opportunity ahead of us.

Now let me pass the call over to John to review the financials.

John DeSimone:

Thank you. I'll start my prepared comments with a review of the second quarter results followed by commentary regarding our guidance and then I'll end with some remarks on our new share repurchase authorization and expanded credit facility.

For the second quarter, we reported net sales of \$1 billion, an increase of 17.3% compared to the second quarter of 2011. As you all know, we face a big currency headwind in the quarter as foreign exchange rates had an approximate 810 basis point drag on net sales. Gross profit margins in the quarter were slightly below last years but slightly up sequentially. There is nothing material to note during the quarter with respect to cost of sales; however, on a year-over-year basis, there was a small increase in inventory reserves that was partially offset by an incremental benefit from our Seed to Feed strategy.

Turning to operating margin, operating margins of 18.1% represents approximately 70 basis point improvement compared to the prior year. The improvement is mainly driven by the short term leverage from higher sales. Looking forward, operating margins will likely decline sequentially as we invest behind the growth and recognize the impact of the strengthening dollar. A couple of note worthy items in SG&A, similar to the first quarter of this year, we recognized a \$2 million loss on the repatriation of some funds from Venezuela.

The effective exchange rate of the transactions in the quarter was approximately 9 bolivars to \$1, or about 40% lower than the SITME rate of 5.3, that current accounting guidance require we use to re-measure our results if Venezuela. Additionally, excluding Venezuela, SG&A during the quarter this year includes approximately \$1.2 million in foreign currency hedging and transaction gains, compared to approximately \$5.5 million in losses, recognized from these same items during the second quarter of last year.

Turning to EPS, second quarter earnings per share of \$1.10 was \$0.22 better than the results from a year ago and \$0.15 higher than the high end of our guidance range provided in April. This beat was primarily driven by higher volume as we exceeded the high end of guidance by 89 million volume points. In comparison to last years second quarter, currency had a negative \$0.13 impact.

Let me add a comment on the fully diluted share base used to calculate EPS for the quarter. As we announced on May 3, we entered into an agreement to repurchase \$427.9 million worth of Herbalife stock. However, the share base used in the EPS calculation is based on the daily average outstanding during the quarter and since the first shares associated with this agreement were delivered to us at the ends of June, it had almost no impact on the average share base for the quarter.

Overall, through the agreement entered into in May, we repurchased 9.2 million shares at an average price of \$46.37 per share. 5.3 million shares were delivered to us at the end of June and 3.9 million shares will be delivered to us

tomorrow. These combined transactions conclude our prior \$1 billion authorization. In a moment, I will comment on the new \$1 billion authorization announced yesterday.

With respect to guidance for 2012, we are raising both our revenue and earnings guidance, compared to our previous guidance. We have increased our volume outlook and now expect volume points in the back half of the year to increase by 13% to 15%, versus the back half of last year, up significantly from that assumed from our prior guidance. This mid-teen growth is on top of a very difficult comparison of 23% growth experienced during the second half of last year.

In addition to the increase in volume expectations, the shares repurchased as part of the May agreement will positively impact the back half of 2012 EPS by approximately \$0.11, which is offset by the negative \$0.11 impact from currency compared to what was assumed in our prior guidance. For the full year, we are raising our fully diluted EPS guidance range adding \$0.30 and \$0.24 to the low end and the high end of the previous range respectively resulting in a new 2012 guidance range of \$3.88 to \$3.98. The full-year 2012 EPS guidance includes an approximate \$0.40 headwind from currency compared to 2011.

Let me now go back to our share repurchase authorization. Since the inception of the Company's first repurchase program in 2007, we have repurchased approximately \$1.5 billion of stock at an average price of \$28.58. And together with dividends, we have returned a total of approximately \$1.9 billion to shareholders since 2007.

As a continuation to our approach of returning excess cash flows our shareholders, yesterday we announced that our Board of Directors has approved a new five-year, \$1 billion repurchase authorization. It is our intention that this new repurchase program be funded from future earnings and, if needed, the credit facility. Based on our preliminary analysis, we believe we have identified strategies that will allow us to potentially accelerate repurchases in excess of our consolidated equity position if we believe the circumstances justify the acceleration.

Lastly, yesterday, we announced a \$500 million expansion of our existing credit facility in the form of a term note that is coterminous with our revolver. The purpose of the expansion is improved flexibility and liquidity as the majority of our revolver was utilized to execute the recent repurchase agreement.

Thank you, and that ends our prepared comments. We will now open up the call for your questions.

Operator

(Operator Instructions)

You have a question from Tim Ramey with D.A. Davidson.

Tim Ramey:

Good morning and congratulations on a great quarter. I guess, Des, the piece that I think I'm impressed with and would love to hear you talk a little bit more about is kind of the increased level of productivity of distributors through the distributor engagement. I mean, I think if I'm getting the number right, I think it was North America -- you had only 7% new distributors but you had 18% increase in average actives. And to me that variance is telling me greater distributor engagement. Can you talk a little bit more about that?

Des Walsh:

Sure, Tim. Happy to do so. So I think this is a combination of three different strategies all coming together effectively in the perfect storm. Firstly, you've got daily consumption, Tim, which as you know, has continued to drive our business now for many years, this focus on creating long-term customers. That is supplemented then by a systemized training approach, where new distributors coming into the business are basically slotted into training programs really helps, not just educate them about the business but helps support them, particularly during that first critical 90 to 120 days in the business.

And then lastly, you've got a city-by-city approach, where you've got distributor leaders taking responsibility for their city, working together to create a systemized training in that city and also working together to enhance the brand and image of Herbalife in that city. So, I think it's a combination of all of those factors that, together, is driving that distributor engagement and performance.

Tim Ramey:

I think of city-to-city, sort of on your Russia model, or some markets, where perhaps they're less developed. But it sounds like there's a lot of efficacy in North America and Europe -- I mean in the US, as well?

Des Walsh:

Absolutely. We see this, Tim, as being a hugely important initiative for growing deeper in our communities. So as you know, as part of our Herbalife decade plan, our goal is to triple in volume over that 10-year period and, essentially, our penetration is a critical part of that. And what we're seeing is that because of the city-by-city approach, whether it's in emerging markets or established markets like the US, it is equally valid in helping us accomplish all our objectives of increasing distributor engagement, increasing brand awareness and creating more long-term customers, which is what we're all about these days.

Tim Ramey:

Great. Just a quick one for John. Great -- sometimes rainbow that you don't expect -- the opportunity to buy back all this stock at \$46 has to be thought of as a good thing, even if the last 30 days was not so fun -- or 90 days, I should say. How aggressive do you expect to be with the next share repurchase? I thought it was interesting that you took out the financing that would make it sound like you were going to continue to be aggressive.

John DeSimone:

Yes. I don't want to give you the wrong impression. Our intention is to execute the buyback that was authorized over time utilizing our future earnings and not to accelerate. Having said that, we certainly want to have the ability to accelerate if we deem it appropriate. So, at this point in time, we have not included any buy back -- any future buy back in our guidance. And I think it's safe to say, at this point, we'll just keep it as dry powder for a little while.

Tim Ramey:

Thanks a lot, John.

Operator

John San Marco with Janney.

John San Marco:

Thanks. Good morning and congratulations. John, I'm just -- just a quick clarification on your last comment. You said guidance reflects no share repurchasing? As in none at all or as in nothing in addition to the regular \$50 million a quarter piece?

John DeSimone:

Nothing in addition to what was executed as part of the share repurchase agreement we announced in May. So, not \$50 million a quarter. Not.

John San Marco:

Okay. Moving on to another housekeeping item, what's different about Brazil that you're not trialing the IDP promotion there?

Des Walsh:

It's simply a matter of language, John. So the reason we adopted in all of the markets in South and Central America is because they're all Spanish speaking



and we wanted to confine the test to an area that was geographically simple for us. And that's the sole reason.

John San Marco:

Okay. That's helpful. And then in terms of the US, I want to make sure I got my numbers right. I think Michael said that 30% to 35% of volume in the US is daily consumption. And then I think you stuck to the number that was about 40% of global volume is from daily consumption. Why do you think it is that the US under index? If remember correctly, it was the second market where daily consumption sort of became a phenomenon. So why do you think it under-indexes and do you think it has the same long-term potential in terms of shifting mix towards daily consumption?

Des Walsh:

Yes. So the answer is, John, because the clubs initially were adopted by our Latino group in the United States and it was based on the success of the Latino group that then they were adopted within the general market, but that was probably about two years later. And that's why you're seeing that, by comparison, the percentage involved is lower today.

But as far as future potential, we're very bullish upon the growth now that's happening in the general market and, frankly, that growth in the general market is spurring increased growth in the Latino markets. And although we don't bifurcate the two anymore, as you know, the reality is that the future is very bright for the adoption and continued expansion of clubs and daily consumption in the US.

John San Marco:

I'm sorry, when did you characterize that the daily consumption got started in the general market? I missed that part.

Des Walsh:

About 2010. About two years after the adoption in the Latino market.

John San Marco:

Okay. I follow. And then lastly, in the past, you had spoken some about strategizing your product development around the nutrition club footprint you now have. Where does that stand? Because it still looks to me like substantially all of the nutrition club sales are the three main products. I know you mentioned the skin care item in Mexico. I'm just wondering if there's any sort of bigger picture updates on where you stand getting new products through your club footprint.

Des Walsh:

Yes. So John, as you know, Mexico is where the clubs began. That's where we have this tremendous penetration, tremendous adoption there. So there are two things I would mention. First of all, in Mexico, as we mentioned, we've introduced two products. One is a shake additive, which actually helps greater consistency, greater taste for the shake in Mexico. The second is the skin care products, which effectively enable us to have a very low-cost daily consumption skin care product. So that's focused on Mexico.

As far as other markets, the adoption of the Herbalife24 line has been hugely impactful in a club context, because as you know, we have many distributors around the world now creating fitness clubs, which are very much focused on the Generation H group, young athletes, healthy lifestyle, and the Herbalife24 product line, although not developed specifically for the clubs, has actually very much contributed to their growth and success.

John San Marco:

Okay. Thanks for the color and thanks for taking the questions.

John DeSimone:

Sure.

Des Walsh:

Thank you, John.

Operator

Linda Bolton-Weiser:.

Linda Bolton-Weiser:

Hi. I was wondering if you could give us an update if there's any -- been any additional activity developing the Angelina machines? I know you had talked about testing them in some markets. Any information you could give on that would be helpful. And then also, if you could update us on your facility progression in terms of the China plant and also the facility in California and how much further that has ramped up. Thanks a lot.

Des Walsh:

Sure, Linda. So for those of you on the call who may not be familiar, Angelina is the internal code name that we've actually given to a project of a - - of an automated sales center. It gives us the ability to provide our distributors with 24/7 access to product, and we believe this is going to be an integral part of our city-by-city approach in making it easier for products -- for our distributors to get access to our products 24/7.

The initial test units of this automated sales center have actually just been rolled out, one in Holland, one in Russia, and then through the remainder of the year, we're going to see further test units rolled out elsewhere. So, it's too early to tell, Linda, what the impact of those would be but, obviously, we believe it's going to be very significant. In relation to the other question, let me pass over to John.

John DeSimone:

Yes. I'll give you a quick update on manufacturing. I'll break it into a couple of pieces. The facility in California produced a little under 29% of our Inner Nutrition production needs in the second quarter, and then our production facility in China produced around 5%. So we're up a little over a third of our Inner Nutrition production with self-manufactured.

We are in the process of actually looking for a additional facility on the east coast of the United States for business continuity reasons and for support of the tremendous growth we have. We'll certainly bring more information forward as we finalize those plans in the next couple of months.

And as it relates to our extraction facility in China, we're please to announce that we had our first production run in June of [Kwonso]. It's still early. The facility is ramping up. It will continue to ramp-up throughout the rest of this year and I think we should have a good update for you maybe next quarter. If not next quarter, certainly the quarter after as to how that ramp-up is going.

Linda Bolton-Weiser:

Thanks. That's all I had.

Des Walsh:

Thank you, Linda.

Operator

Scott Van Winkle with Canaccord.

Des Walsh:

Hi, Scott.

Scott Van Winkle:

Hi. Thanks. So just following up on the extraction facility in China, when that thing's up and running a year of two from now, what percentage of your products will be using ingredients from that facility?

John DeSimone:

The way we've defined it is that 100% of our botanical extraction ingredients will come from that facility. So that's -- and that is specific for botanical extractions, so it doesn't include soy. Soy will come from our soy vendors,

and our vitamins will come from DSM, our vendor with respect to those -- the materials -- excuse me, the minerals and vitamin. But all botanicals, 100% of our products will -- 100% of our ingredient needs will come from that facility. I kind of stumbled on that but --

Scott Van Winkle:

Okay, thanks. And then you mentioned soy, kind of timely with the drought out there. What's your position on soy, and is there any possibility of taking pricing if you see some rising ingredient costs next year?

John DeSimone:

So, we're certainly, at this point, expecting some ingredient costs next year, and we are working to cover those costs through whatever it is we have to do from a manufacturing standpoint to offset it from an efficiency standpoint or from a price increase. So, I think we can at least cover the cost of any potential increase.

Scott Van Winkle:

And sticking with pricing, so in many of your markets local currency growth grew at a modestly faster rate than volume point growth. Is that pricing or mix or both?

John DeSimone:

It could be pricing or it could be timing of shipments. The volume point month is slightly different than the financial month. So in some cases it's timing and in some cases it's price.

Scott Van Winkle:

Okay. Like if you back into your Q4 guidance, it looks like there's not as much currency impact in the Q4 as we're likely to see in the Q3. Is -- (inaudible - multiple speakers) what's the driver?

John DeSimone:

Because the dollar strengthened a lot during the late third quarter, early fourth quarter of last year. So the comparison isn't as negative as the third quarter.

Scott Van Winkle:

Perfect. And then on this Lieberman study, two questions. One, aren't you amazed that you have 5% -- almost 5% household penetration? And then, two, is there anything else you're trying to get from the study? Any other insights you can glean.

Michael Johnson:

I think I've got -- it's Michael. I think we'll continue to glean more information. This is our first quarter with them. And so as the research builds, we'll be adding more questions. We'll be working with them to understand our consumers a lot better. And I don't think we're amazed at 5 points -- at that number, the 5 million house holds.

I think that we knew there was a strong consumer part of our business because of the order patterns that we see, the repurchasing that's taking place through the month. We knew that the patterns were very, very strong and some of the skepticism that's out there about our consumer uptake is something we had to put to bed.

Scott Van Winkle:

Great. Thanks. And then, John, one last question -- thanks for the information on the share repurchase and the timing of the shares being delivered. Can you just make it a little simple for us? What are you expecting for maybe a range of diluted share count in this third quarter?

John DeSimone:

That repurchase agreement should lower our share count by around 7.5 million shares in Q3 and the full 9.2 million shares in Q4.

Scott Van Winkle:

Thank you very much.

Operator

As there are no further questions in the queue, I will turn the call back to over to Michael Johnson.

Michael Johnson:

Well thank you, everybody. We had a great quarter. And as Des mentioned in his -- we were kidding him about it -- as he mentioned in his opening comments, he mentioned daily consumption 21 times and that's probably not enough.

We have a tremendous business model built by very apt distributors and a wonderful team of employees. Our team Herbalife is focused on great product, productive distributors and servicing customers. While our growth continues, we believe that the best, frankly, is ahead of us and we're just getting started. You've heard that before from me and you'll hear it again.

So we want to say thank you for your support and for those of you who are joining us for the Herbalife Triathlon in Los Angeles, good luck with your training and we'll see you soon. Thanks for being with us today. We appreciate it.

Operator

That concludes today's conference call. You may now disconnect.

END