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Conference

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PRESENTATION

Brian Wang - *Barclays Capital Inc. - Analyst*

All right, great. I think we're going to get started now. So, for those of you who don't know, my name is Brian Wang, I work at Barclays, I work with Meredith Adler as well, covering the food and drug retail as we just recently launched on healthy living as well, and we're very honored to welcome Herbalife here today. They've experienced tremendous growth over the past several years, partly attributable to the Company's switch over to daily consumption from previously selling bulk orders less regularly. It's a truly global Company, operating in over 80 countries, with only about 20% of sales actually coming from the US. We recently initiated coverage, like I said, with a one overweight rating on Herbalife, and -- but we do think that is still definitely in the early stages of a multi-year growth story.

So, with us today, we have Senior Vice President of North America, Ibi Fleming, [I've shown that]; and VP of Investor Relations, Amy Greene, who many of you I'm sure are quite familiar with. So, well, we'll be doing the fireside chat format, so I'll ask a few questions and then we'll open it up and hopefully a lot of people have questions.

So, I guess, just to start with just big picture kind of global macro. Your Company has obviously performed very, very well over the last several years. Do you believe that the global economic downturn benefits, hurts or how that impacts Herbalife multilevel marketers in general? And if it started to improve or if we start to see signs of improvement globally, how do you think that impacts the business?

Amy Greene - *Herbalife Ltd. - VP, IR*

I'll take it from a global standpoint and then Ibi can talk about it for North America. But I think, for us, particularly with daily consumption, the economic downturn has not been -- has not necessarily been a driver, I think, I -- or an impediment. I think that there's enough perhaps (technical difficulty) to think that industry to be more counter-cyclical than it may necessarily be, because in order for (technical difficulty) put a need for supplemental income, people may sign up to be a distributor.

They're only going to be a successful distributor, if they're able to sell through to a consumer. So you need both, you need the business opportunity and you need the product driver. And so, for us, we look at more the macros from the standpoints that weight management is -- there's a growing need around the world for weight management. There's also a need for supplemental income due to underemployment.

So it's just both sides of the coin that are helpful. If the economies around the world were to improve, one of the beauties of it is that you'd probably have hired a sizable income, which creates more the ability for distributors to sell from the catalog to a larger extent than just within the daily membership fees within the club. So that can always be a positive. What about -- what do you think about (technical difficulty)?

Ibi Fleming - *Herbalife Ltd. - SVP and Managing Director, North America*

(technical difficulty) So when economy is great, it's great because (technical difficulty) money they spend and buy the products, become a (technical difficulty) opportunity for those folks who are looking for the best opportunity. So (technical difficulty).



Brian Wang - Barclays Capital Inc. - Analyst

[It's like] a win-win. So I guess just on the Nutrition Clubs and the daily consumption, I guess, if you could just talk a little bit about what -- there are other forms of daily consumption beyond the Nutrition Club that you could just touch briefly on what those entail, what those are?

Amy Greene - Herbalife Ltd. - VP, IR

So within the Nutrition Club model, inside the Nutrition Club activities, I think, (technical difficulty) other daily consumption models, other weight-loss challenges, we have headcount (technical difficulty). And so the way I think about the Nutrition Clubs, for those of you that haven't done, is they are -- it's a fixed location that the distributor rents and to facilitate those Nutrition Clubs. So they multipurpose the space and one way to do that other than just operating a Nutrition Club that we've seen very successful in a lot of markets is a weight-loss challenge, which is very similar to that plays off the TV shows biggest loser kind of thing. So there is a curriculum and [there is still] that some people come in and they're tricked or taught about nutrition and healthy active lifestyles, and they (technical difficulty) curriculum for each week. This all kind of revolves around consuming the product.

And then, the fit camp that Ibi mentioned (technical difficulty) are really taking hold in a lot of the general market communities and (technical difficulty) with that gen age group that we would like to highlight recently that's kind of 35 and under that are not -- they're focused on weight management, it's not just they're focused on healthy active lifestyle. So within their Nutrition Club on a given morning or afternoon, they will host what's essentially a boot camp. And it's a free exercise, workout regimen that's led by one of the distributors that -- and sort of creates a funnel. So we have a club in Los Angeles that -- so really kind of kicked these things off and they'll have 100 to 150 people on any given morning as a fit camp, there is a free boot camp and then after that, they invite them back to the Nutrition Club for their (inaudible), because one of the tenets of working out is that you want to have pricing within 30 minutes of finishing your workout.

So it's a natural progression and buy them back to the club for a [protein shake]. And these are people who aren't necessarily -- who are more interested in healthy active lifestyle than just a weight-loss element. And so it creates a very good customer draw and it's a very low threat [being that's] inviting them under a nutrition club. So it's more of the activity that takes place in the nutrition club, at least for daily consumption, because they're even moving away from (inaudible) boot camp because it's not just going to the beach in Santa Monica, for example, and exercising. If they have (inaudible), so the moms that bring in (technical difficulty) their kids and they go strolling somewhere, yoga classes. So it's all about having some kind of activity that then they come back to this nutrition club where they have their (inaudible) shake.

Brian Wang - Barclays Capital Inc. - Analyst

And just for the audience, I can speak first-hand on -- they had an Investor Day about a month ago out in LA and Amy had us all up at 6 AM, doing a good workout and having our nutrition shakes after. So [is a -- definitely --]

Amy Greene - Herbalife Ltd. - VP, IR

If you're going to come to LA, you might well (inaudible).

Brian Wang - Barclays Capital Inc. - Analyst

Forget about jet lag but you've got a topic of Gen H and sort of the targeting a younger consumer now, 35-year-old and younger. Is it the Company's intention to sort of target like that younger demographic or a different income demographic like with the Herbalife24 sports nutrition line or how do you guys feel about that?



Amy Greene - Herbalife Ltd. - VP, IR

So I mean (technical difficulty) asked the question is it the Company's intention, basically it's the distributors', right? I mean the distributors are out there working, and they don't see -- they just see a face and they're not [mocking], and okay, I'm going to talk to the person because they're young or I'm going to talk to this person, because they're (inaudible) person, because they're African-American. They talk to everybody about the business opportunity and the products. For the Company though, we do see, right. So we do see the segments that can provide Herbalife a broader base.

So, for example, the African-American initiative that we're doing, it started about three years ago]. We see distributors moving up the marketing plan with that. So we invite them on the stage. So it's like with [light], right, I mean, it's like if I'm going somewhere and I want to be able to relate to whatever it is being presented, I wanted to be someone that I can relate to. So that's what we try and do at Herbalife in terms of the corporate side.

With the Gen H'ers, which is distributors that are 35 and younger, for example, last year, on the general market side, we had 11 new [presidency] members. Out of the 11 new presidency members, eight were considered Gen H. So, because we have now that new distributor that is young, so we do. We bring them up on stage. We talk about how they do the business. Is it a little different than distributors been around for 30 years and that's how we basically help distributors see the opportunity. And because distributors recruit -- drug selling as a general rule is typically very friends and family oriented.

So I'm by nature going to talk about the business and/or sell product and recruit people that I come and contact with. And so as a segment begins to grow, it would take on a natural momentum of its own because that person's circle of influence tends to look a lot like them or be very similar age or live in a similar neighborhood and things like that. So while we don't necessarily change or change the course or direct, we're not able to really [triple] light switches that we want this to work or that to work as one begins to gain momentum, it tends to take on a [logic] event.

Brian Wang - Barclays Capital Inc. - Analyst

And then just sort of continuing on with that topic, when you -- and Herbalife does create new products, because it is a network marketing model, which is -- obviously is different than just general retail, can you talk about a little bit, I guess, when you launch a new product line, for example, Herbalife24, do you look to -- like it's a plan to target new distributors or kind of have the existing distributors add on to their purchases or do they target new customers or maybe sort of --?

Amy Greene - Herbalife Ltd. - VP, IR

[Sort of], right, and we've launched new products, we want to target the existing distributors and then obviously the distributors target potential new customers. So the Herbalife24 has opened up the door for that different customer. But basically, new products for us just -- they bring excitement and engagement to the distributors. I mean our core products are still the top five and that's really -- the number one product has been around for over 30 years. But it's definitely important for the market because it does bring in excitement and engagement to the distributors.

Brian Wang - Barclays Capital Inc. - Analyst

And then, one of the sales initiatives that you guys sort of talked about a little bit at the Investor Day, or I guess, a little bit more in detail is a city-by-city approach, where you're kind of sharing -- having your top distributors in each kind of large city, kind of take responsibility for other distributors and for the brand and everything. If you could just talk a little bit more detail about that and do you believe it's more sort of [easy], I guess? Do you believe it's more applicable in the US or in less developed markets, I guess?

Amy Greene - Herbalife Ltd. - VP, IR

Yes. No, actually, that city-by-city approach is taking hold everywhere and all the regions, and so for example, for North America, we've taken the concept that Mexico did, so Mexico about two years ago launched a [pre-immunization] program. So basically, before our sales folks were in the



office, so what Mexico did, they started putting salespeople in the different regions. So this way, when a person wakes up, they're basically living with a distributor, not really technically again with a distributor. But --

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

For a reason by the way, Mexico carved itself up into X number of geographical entities within Mexico. So whether it's population dense or the ability to traverse the area, so it's broken something to X number of regions and yes, for us, we did it we took a look at our top 10 [MCSA] areas.

So, for example, North America did I think 980 million volume points last year. The US was 960 million. The top 10 MCSA areas for us represented 43% of that. So then, we've really taken in North America, we have five regional tasks that are in different areas of Chicago, so in California, Houston, New York, New Jersey area, we have one in Canada and those staff, they're working with the distributors every day, they're having meetings with them, they're training on biz works, how to look at their business, how to see within the organization who is moving up the marketing plan.

So it's really in fact day-to-day and that's phase-to-phase that that's happening out there is city-by-city approach. So then, you were showing them numbers about their area, for example. We give them stats. This is how many, how -- if you're only working with Latino market, this is how many we have in population in this area of Latinos. If you work in both markets, if you happened to be Latin, you're bilingual, you can recruit both sides. So it really engages a distributor.

Brian Wang - Barclays Capital Inc. - Analyst

Okay. And then, just talking -- staying on that topic of sort of sales initiatives, can you just talk a little bit about, I guess it was a couple of years ago, I think that you changed the sales leader qualification status, where I guess it kind of coincides with the growth of the daily consumption, but if you could just talk briefly about -- about that?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Yes, so for us, here in the US, so in about 2005 is when we started seeing deduction of the Nutrition Clubs from Mexico to the US and it came first on the Latin side. So in 2005, the Latin business represented roughly 30% to 35% of the total US business. And then, when they adopted the Nutrition Club model, today, the Latino business represents roughly 60% to 65% for the total US. And -- but basically, for the Latino market, it was a gradual -- it was there already because just the way they operate it, they weren't purchasing large amounts of volume.

They were already purchasing small amounts of volume points. What we're seeing is, is the shift now with the general market. They've definitely adopted now the Nutrition Club model as well. We're seeing the general market group over 20% last year and it's all from the daily consumption model, the nutrition club model. And -- but it's really run the journey, right. I mean, North America, as I always keep saying, it's the oldest region, over 30 years old and that just started two years ago. So it's a gradual shift that we are seeing.

Amy Greene - Herbalife Ltd. - VP, IR

And to those that aren't necessarily really familiar, so when you sign up at (inaudible) you would sign it to be a distributor that would give you an initial discount on your product purchases. But as you -- to qualify as a sales leader, you have to -- under the traditional methods, you have to purchase X amount of volume in one month or in two consecutive months.

And so what we tested and then more it's grown with at the end of 2009 was the ability to become a sales leader by buying 5,000 volumes point every 12 consecutive months, because what we saw was daily consumption and particularly with nutrition club was distributors ordering the -- just the amount of product they need to service and to work within their nutrition clubs and one of them to be able to stay in the business and grow their business with incremental purchases instead of feeling the need to buy a lot at any one period of time.



And when you look at some economically less-developed markets, the idea of buying 4,000 or 5,000 volume points worth of product in one or two consecutive months seems like an instrumentable amount of money in some places. And giving them the ability to accumulate those purchases over 12 months has really changed their thought process about how -- what it takes to become a sales leader for the distributor.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

And it provides an opportunity for better training. So if I recruit Amy, for example, I'm taking the time to really train her on the business, how to work the business, how to run up a nutrition club versus signing someone up, putting in 4,000 volume points now, figure out how am I going to retail this product. So it's also built a solid foundation and people stay. So they're sticky, it's a sticky business.

Brian Wang - Barclays Capital Inc. - Analyst

And just on the topic of training, I think that's sort of the answer to this question, but I guess on the last call, it sounded like you guys were moving more, I guess, away from the home-based nutrition clubs and more towards the commercial space nutrition clubs?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Well, really so when Mexico started nutrition clubs in 2003, I believe, they were initially founded in distributor term. And they -- but as they began to be adopted, then the Latinos in the US began opening nutrition clubs in 2005, what they saw working were home-based clubs, so they started I think in Manhattan.

But then, when the Koreans and Taiwanese wanted to do nutrition clubs and they came over, when they went back to Korea and Taiwan, it's not culturally acceptable to have a bunch of branded people in your house, that's in your apartment every day that drink shake. So they're like to how are we going to make this concept work, oh! we're going to rent a larger space. They're going to -- and they would open a nutrition club in a commercial location.

So as we began to see the success of that, other distributors were like, (inaudible). I want to leave my house, go somewhere, put a key in the door and actually have this freestanding thing. And so we began seeing in the US, well, a Latino's nutrition clubs that may have originally been [intense] more for the commercial.

So in reality, in 2011-2012, Mexico is really still the only country that has a meaningful number of home-based clubs that was kind of (inaudible). Latino market in the US may have some, but it's not a huge piece. One of the things that I would have to say that robust that we like to talk about Herbalife and we're very good at. It's a propagation of good ideas from distributors and helping them to see best practices from other areas or countries or regions around the world.

Also, the Mexicans saw everywhere else in the world these commercial clubs working and there are benefits to nutrition. There's benefits to being in your house, there's benefits to not being in your house. But they begin to see productivity benefits by being in commercial locations. Your hours are longer, you can share the workload across the multiple distributors. There are definitely, but you can invite more people that you would necessarily feel comfortable inviting to your house some random person you met at the market or is it the commercial location, you invite anybody you come across.

So they began transitioning -- a lot of distributors they began transitioning from home-based clubs to commercial. So it's not the companies looking alike which is saying you should do this versus the others, it depends on the distributor's, individual situation. But it is the reality that we're seeing is that we are seeing more and more commercial clubs in existence. Yes, with a handful Mexicans, so they have a lot of home-based clubs, so they're definitely transitioning it.



Brian Wang - *Barclays Capital Inc. - Analyst*

One investor concern that I've heard since picking up coverage is that, I guess, in certain geographic areas, for example, a Spanish Harlem, here in New York or even Flushing Queens in New York, there are a lot of clubs served within a small radius. I don't know if there's --

Amy Greene - *Herbalife Ltd. - VP, IR*

(inaudible) it won't be the best out in the last couple of meetings for that people say, why is it that I can't find any [thought here]. I keep looking for nutrition clubs, we're identifying them.

Brian Wang - *Barclays Capital Inc. - Analyst*

Well, give me a call.

Amy Greene - *Herbalife Ltd. - VP, IR*

Yes. I'll let Ibi who loves to talk about saturation.

Ibi Fleming - *Herbalife Ltd. - SVP and Managing Director, North America*

John DeSimone was [a touch] maybe kind of feels saturated to me. So when we think about, so for example here in I think Manhattan, you have 1.6 million people and there really aren't that many clubs. And so we are not concerned about being saturated. When we think about the population in the US, over 300 million and only 500,000 distributors for the US. Again, I mean, I know people say to me that they hear this all the time, but we're just really scratching the surface. We're not concerned at all about saturation.

Amy Greene - *Herbalife Ltd. - VP, IR*

I mean, and a lot of the -- I mean, if you look at it in perspective, those of you that have been in clubs in New York, think about how the challenge that you find trying to find an English-speaking club in New York. So while there may be a lot of Latino clubs in certain areas, there are a lot of non-Spanish-speaking areas in the city and in the [borrows] where I personally have not even found a handful of nutrition clubs yet. So there is still a lot of flight space. There is a list of opportunity sets even in a city like here, which is one of our largest city in the country from a volume standpoint.

Brian Wang - *Barclays Capital Inc. - Analyst*

All right. Great. And I guess, just speaking with that topic, so you guys, because the nutrition clubs are run by the distributors, not by Herbalife, but you guys do I guess the CFO showed at some of his tools at the Investor Day, where you guys do have the ability to sort of analyze not necessarily the nutrition clubs, but you look at it by distributor, of course, you do obviously do saturation analysis and other type of analytics along those lines.

Amy Greene - *Herbalife Ltd. - VP, IR*

I don't know that there is saturation analysis, because what we look at, we do have from a technology standpoint have the ability to do deep dive within the -- into a distributorship or into either from corporately we can look at a region, a country, a city, the different layers, you can kind of peel off the onion to see what kind of granularity you want to look at. You can look at an individual distributorship, you can look at the whole lineage of a distributor that has a downline. But it's not so much looking at a saturation analysis, it's more looking at what the opportunity says because I'm a distributor and I'm looking at my tool, the distributor only sees their business.



So when Ibi talks about city by city and about having someone that's meeting with the distributors and talking about their numbers, part of what they're helping the people identify is what they can't see beyond just the scope of the numbers about their own business. They may be doing a great business in New York, but they may not be cognizant of the fact that they have their handful of distributors that haven't and they haven't really had any training meetings and pick a county that not very far from here, but it would make sense to begin seating and doing some work and things like that. So Ibi's regional staff really works with the distributors to identify geographically or within their business entities what are the -- where are the opportunity sets.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

What I do, I get a call from a distributor, for example, who lives let's say in Southern California and wants to move to Miami. So we have a program called Geoscape that we can basically look up not only the -- let's say that they only interested in working in the Latino market, okay. So it tells us what's the Latino population, it actually breaks it down by the Cuban, Mexican, Puerto Rican, and then also layers it by the distributors. So within that zip code area, how many distributors do we have and what level are they. And this is how they also have taken on that city-by-city concept, because they don't want -- only want to just started working in their own backyard, they want to start working in the different states.

Brian Wang - Barclays Capital Inc. - Analyst

And I think you briefly touched on it before, but just add-on purchases within the nutrition clubs obviously, so it's mainly the three core products. But I think you guys have showed in surveys that you've got on average I think a \$75 of add-on purchases per month. I guess, if you could talk about if you think that's a big opportunity going forward, whether that requires new products with better education or talk on that a little bit.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Sure. I mean when someone comes from nutrition club, they're first coming in to have the basic right, the (inaudible) shake, but obviously they're going to purchase other products. They're not tasting or taking other products in the product line, so that's the opportunity. It's also the opportunity is that one coming to a club on a daily basis. I have family members who I want to purchase products for them as well. So there's definitely always an opportunity for product at the nutrition clubs.

Amy Greene - Herbalife Ltd. - VP, IR

One of the beauties of the nutrition clubs is it [that's early to talk] on product is because you've got the frequency of contact with the consumer, it's not a hard, it's -- you do not create a hard sell mentality in the sense that the first time they come in, you shove a catalog at them and say, let's buy product. You're cultivating a relationship and a dialog with the consumer. So as I begin to become more familiar with you and if I'm the distributor and I would say, are you taking a heart healthy product?

Are you familiar with Omega-3 and because I see you every day and I'm chatting with you anyway, it's a much easier introduction of the catalog and the product, so that I can kind of begin baby stepping you into tack-on purchases as opposed to under the traditional business before daily consumption in nutrition clubs. I'm -- as the distributor, I'm smiling and dialing every month trying to make sure that you're reordering the product. I know you're ordering and while I've got you on the telephone or while I've stopped by your house, I'm only trying to sell you on an incremental product. So, that's a harder sell cycle when you're only talking as in that infrequently versus having that daily contact.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

And that's the difference and that's what we talk about the activity that takes place in the nutrition clubs. So, like Amy says, they're having trainings with their -- and they're showing the consumers. We provide them with PowerPoint presentations that maybe on two things about heart health. And you talk about the need to take care of your heart and what products do we have, that can help them and for one other day, it will be on

weight management. So they have these tools that they can -- they don't have to be experts, we provide them with the PowerPoints and what to say.

Amy Greene - Herbalife Ltd. - VP, IR

And videos.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Yes.

Brian Wang - Barclays Capital Inc. - Analyst

Yes. Just changing gears a little bit, just talking on regulation, I guess, obviously, you're dealing with health and your supplements and product -- food products. So, I guess, if you could just talk a little bit what are -- when you do hear about issues, potential issues, it is typically more on the products that you sell or is it more on the mode of selling the multi-level marketing network, marketing model?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

When you say here of issues, so what -- I mean --?

Brian Wang - Barclays Capital Inc. - Analyst

Well, I guess, when you're -- if the government or regulatory --

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

No, we are very cognizant that we operate in both a regulated category and a regulated industry and so, that's just the structure we function in. And I think, there is a misperception -- misconception amongst investors that it's not a -- that the -- because you don't have that FDA approval to launch a product and things like that, but you don't have regulatory oversight. It's an incredibly regulated industry, particularly on the manufacturing side. And that's why we went into manufacturing, because we really feel that to be a leader in the industry, you need to be self-manufacturing in order to have a seat at the table with regulators to have a voice in this conversation, you need to be manufacturing your own product.

And so, that's part of the reason we've gone down the path. And from a direct selling standpoint, we have very -- the [distributors] rules and distributors have to abide by an ethic. Our CEO -- our Chairman and CEO talk constantly to distributors and internally about always taking the high roads, because it is an industry that's regulated, it's an industry that various players in it. We all -- we'll look to take the fastest route from point A to B and that's not always the best route and it's not always the most sustainable or the healthiest for the Company. And by being a large player in the space, it's important that our distributors understand the importance of the hearing to rules and we work with them on a constant basis for that.

Amy Greene - Herbalife Ltd. - VP, IR

And it's self-regulated. I mean, our distributors will be the first ones to call us to tell us and they don't say, hey, look, I know the distributor and he is in my organization, but there's something weird going on. So they are the first ones who report it, because they want to protect their business.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Right. And we actually are a group within Herbalife called Distributor Ethics and Compliance (DEC). And it's essentially an internal police force that works with distributor, those types of distributor cases. And so, if they -- if some -- they or their business is predicated in a level-playing field. So they have -- if they feel like someone is doing something, which is outside the rules that's tipping the playing field, they will pick up the phone and call the 800 number to DEC and say x, y or z, I suspect x, y, z and they'll open a case and they'll investigate, because they all very much respect the rules to keep it that way.

Brian Wang - Barclays Capital Inc. - Analyst

Great. I think, at this point, we'll open it up to questions. I guess before I open up to questions, I just want to give everyone a heads-up there are (inaudible).

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

(inaudible) in the corner, so let's please take questions.

Brian Wang - Barclays Capital Inc. - Analyst

Of course, yes.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

And if you need to know how to make a good shake, please watch the (inaudible).

Brian Wang - Barclays Capital Inc. - Analyst

Yes.

QUESTIONS AND ANSWERS

Unidentified Audience Member

The US has historically been one of your top growers and that's unheard of a consumer company. Could you talk about how sustainable that is and is it because of daily consumption or the going into general market like the Latino? It sounds like it still has a huge growth trajectory. How long is that sustainable, the US could be even a top five grower?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Yes, so it's very sustainable. So, again, when we talk about -- and by the way, I think, we've stopped reporting Latin versus a general market, and the reason why is because we were seeing a lot of Latino distributors, who are bilingual, okay, who are starting to recruit general market folks. So for example, in 2011, 22% of the new general market distributors that came into the business were recruited by a Latino distributor. And when we look at, for example, volume points per capita for the Latin side, it's roughly 11 volume points per capita, the general market is less than --



Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

All right, Amy.

Amy Greene - Herbalife Ltd. - VP, IR

Less than 2 volume points per capita. So it's definitely just getting started and the general market grew over 20% last year and again, it's the foundation, the daily consumption of the Nutrition Club model, but it's just now getting started with the general market side.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

While we don't guide by region, we do talk about what our top tier, what our tier one opportunity markets are. And we have said that we're comfortable that those markets will be BRIC plus US and while the US is our oldest market, it's now 32 years old, it is definitely because of the advent of daily consumption, really being in its infancy and the largest population segment in the US and we're really -- that's where we get the comfort level that there is the opportunity for us to continue to see both volume growth, but also per capita expansion and per capita consumption in the US.

Unidentified Audience Member

Are you going to release metrics on number of global clubs or perhaps the number of clubs per region? And also, can you talk about the absolute penetration rate of clubs in the business and how that's evolved over time?

Amy Greene - Herbalife Ltd. - VP, IR

So we -- at one point in time, we gave metrics or club count and we've kind of pulled away from it, because we just didn't necessarily had the -- feel that we had the best tracking mechanisms in place in some of the countries and some of the regions around the world. We are working on that and I would hope that same, we're able to at least discuss commercial club count, but that has yet to -- we haven't yet. So I'm not going to promise anything right now.

And then, from a penetration standpoint, or penetration per club, we look at it more from penetrate -- volume point per capita than we look at it per club. So as daily consumption is growing as a percentage of the business, you will expect that you're both seeing new clubs growing, but also productivity of existing clubs likely growing and we haven't really broken out what that mix is because we haven't given club count. So it's difficult to give you one without the other.

Unidentified Audience Member

One follow-up question. Apparently, some distributors are very, very successful in business that they've built up over many years and I've heard some examples of distributors [that slows the perfect] clubs not wanting to disrupt their business. (inaudible) with the conversion then is midway through and then we should see any more clubs form over time?

Amy Greene - Herbalife Ltd. - VP, IR

Well, yes. A quick answer is yes, because when we are 32 years old and clubs did not start until -- in Mexico until 2003 and in the US till 2005 (inaudible).



Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Yes, (inaudible) a lot of our [grade] for the past few years has been driven by the early adopter markets. So when we look at per-capital penetration and we take about and give examples, we often give you Mexico, US, Latino, Korea, Taiwan and Brazil and that's because those are the ones that were driving the growth with the advent of daily consumption in nutrition clubs from that kind of '06 to 2010 window, but one of the things that we -- one of the things and Ibi spoke to it earlier in the Q&A was that you need successful distributors that can be on stage to train on successful business method.

So as we've had more distributors, having more successful nutrition clubs, we have more people that can be on stage training on this successful business methods. So you begin to see it spreading out of just those early adopter markets because now there is this wealth, there is a wider ground flow of distributors that have success with it. And so, yes, and there is a lot of opportunity left because it is now just in its infancy moving into the other markets.

So one of the things that we highlighted last quarter and mentioned on our conference call is that, for the past two or three quarters, every country in Latin America had positive volume point growth and part of that is because the two bigger markets in the region are Venezuela and Brazil, and they've had a lot of success with daily consumption and enough distributors in other markets have now been willing to try nutrition clubs and daily consumptions and exceeding them in those other countries. So you need a sample set that can train, that creates, that makes people have that mentality, oh! I can try this, I can do this too. And then, it begins to seed itself.

Amy Greene - Herbalife Ltd. - VP, IR

And that's why I'm excited about North America because when we see -- that will be showcased at the summit, for example, when we see the growth that's happening, it's not just happening from the new distributors coming into the business, but even from distributors that have been around for almost 30 years, who basically just retired, who aren't working the business anymore. They're back, they're back and they're growing. They're one of our top leaders now and it's because of the daily consumption model and so the opportunity is that it's just out there. It's great.

Unidentified Audience Member

All right. As your business grows, you're changing consumers' eating habits, changing the composition of their daily calorie intake. But your gain is obviously someone else's loss. You know from talking to your customers what kinds and types of packaged foods your products are most frequently displacing?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

From a distributor standpoint, a lot of you were laughing at us over the last year, so because we get asked to as our competitor or hit our distributors deal as a competitor and we often say, in reality, the distributor mentality is to steal one meal a day from fast food, because if I can find -- if I am a distributor and I can find a consumer who was eating off of a dollar value menu, some pick one and I'm not -- isolate one in particular, any of them. That is the person who by visiting a nutrition club and having 200 calorie meal replacement shake that is a balanced profile of mineral and vitamins, if they probably were not getting in the meal that they are now replacing will most readily begin to feel the benefit from having that balanced meal.

So, it's not necessarily a particular packaged food that we see a replacement from. But if I am a distributor, that's the opportunity set that I'm looking for as someone that has the financial wherewithal and capabilities to buy Western fast foods and that's the person who is going to most readily feel the benefit.



Unidentified Audience Member

Then it sounds like the healthier business could be monitored just by looking at the distributors. They are sort of ultimately your customer. What metrics do you look at to monitor their health and what kind of impact have you seen, either positive or negative from a fallout of other distribution companies that are similar where you might have some overlap or a potential overlap or pick up some fallout, maybe Brazil would be a good place to discuss that?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

So from a -- we have a lot of metrics that we look at. And you all are welcome to go listen to and read from an Analyst Day transcript, because we actually went through a lot of modeling metrics that we look at internally. And the CFO kind of did a lot on that. From the ones that we report on a regular basis that are important as they're looking into health of distributors, we look at Average Active Sales Leaders which looks at -- it's an engagement metric. So it's a measurement of an increase or decrease in the average number of distributors, Sales Leaders that ordered during the period compared to the prior year's period.

So when we had, I think last quarter, it was up 23%-ish I think, so that 23% of the distributors. There were 23% more distributors that ordered during the [prior-year] quarter than the prior year. So it's kind of like a same-store sales metric to some extent. So we look at that because, as I said, it's an engagement metric. We also look -- you always need new people coming in. So when you see new Sales Leader growth plus an engagement metric, that's usually -- see very healthy leading indicators. As to your Brazil comment --

Unidentified Audience Member

(inaudible - microphone inaccessible).

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

We don't necessarily see a direct correlation, because daily consumption is driving our business. And so whether if someone is struggling in a given region, there is not -- if you look at other direct sellers, there's not a lot of product overlap for us. There is not, as the beauty company is struggling somewhere, that doesn't necessarily make it a layup for that person to begin selling Herbalife product or vice versa. So there's not necessarily a [good tire] correlation there. The growth is really being driven by more consumers from nutrition clubs that want to become distributors, that want to work in close, that want to begin operating their own that creates that lifecycle.

Unidentified Audience Member

A successful direct seller can't migrate over to another one?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

So, a successful direct seller, can they migrate over to another one? Yes, if they feel like they were able to bring their whole customer base over to then begin buying an entirely different product set. So, if there is a -- that is not as easy as it sounds. So that's not -- certainly you sound easy, but you guys are not easy crowd. Anything else?

Unidentified Audience Member

In the US, are there any distinctions you can make between general market clubs and Latino clubs?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

There's a lot of them.

Amy Greene - Herbalife Ltd. - VP, IR

Yes.

Unidentified Audience Member

There are a lot of them, yes.

Amy Greene - Herbalife Ltd. - VP, IR

Not really. I mean it just depends where you go in the US you're going. If you're going to New Mexico versus here the Bronx, so it just really depends. And, no, but they basically they did the same thing.

Unidentified Audience Member

And so there's not like generally more add-on products from general market clubs or anything?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Well, I don't know there is necessarily going to be a general versus Latino. It's (inaudible) question. If you have a Latino club that's in a more affluent neighborhood that's going to have equally high tack-on purchases as a general market club is in a more affluent neighborhood. So it's hard just you want a stereotype one versus the other?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

People play a lot of music in their club. Play it little louder.

Amy Greene - Herbalife Ltd. - VP, IR

a little louder.

Unidentified Audience Member

Talking about the evolution of to the commercial in the Korean market in particular and given the population by growing density of Korean populations in different areas within US, is that sort of underrepresented now? Is that an area that from a (multiple speakers) you can --

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Yes, we were just talking about that some -- I'm getting ready to hire somebody that's Korean for the US, because that's a huge opportunity for us. But, again, it has to be -- have been a distributor, starts it right, because we can't. We can hire all the Koreans and -- but if -- there's not a distributor out there that's really taking the business. But, definitely, I mean when we think about Korea, I mean, Korea is one of the top countries for Herbalife and Los Angeles has a huge Korean population, San Francisco, New York, so, we're targeting that.

Amy Greene - Herbalife Ltd. - VP, IR

But there's a lot of -- I mean there's a lot of not -- they're also a big initiative, an African-American initiative that they're working on in the US. Generation H, that 35 and under, is its own initiative. So there's really if you look at it, I mean, Ibi looks at the US or any regional or country that looks at their markets and looks at what the opportunity sets are within demographic growth, but we can't drive it. So we have to have the distributors that are being successful in that business method or in that demographic growth that then can go and help us see that type of growth and then we can supply them with the tools and the information to better do that, but they have to [exit the starlet].

Unidentified Audience Member

To what extent is the Mexican market overlapping with the growth in the US Latino population?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

First, I mean, Mexico has been growing a lot for us.

Unidentified Audience Member

Just to clarify, are the US-Latino distributors selling products to those in Mexico and vice versa, or are they independent markets?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

No, they're independent markets. They have -- Mexico has their own products and the US has -- we have our own products.

Amy Greene - Herbalife Ltd. - VP, IR

And so the Mexico product actually shipped from Mexico and it's licensed, it's imported into Mexico and it's licensed for Mexico -- for sale within Mexico and similarly in the US.

Unidentified Audience Member

Question on the Russian retention rate, that's pretty incredible for Herbalife and probably any direct seller, can you emulate that throughout the rest of Herbalife moving up your corporate average for retention or is there something that you can successful about that you can emulate?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

What you're referring to is, in Russia which has a lot of daily consumption and a lot of nutrition clubs, an office where they first initially put in place that longer 5,000 volume point of a 12-month qualification for sales leader. We have a much higher annual retention rate of sales leaders than we have then of the global. So, Russia this year was more than 70% and our global number was 52%. So, those end countries that have a higher usage of daily consumption, you have -- we tend to have higher retention rates. And there -- Des Walsh, our President, spends a lot of time working with the regionals, with isolating what is it about Russia that's driven that type of retention rate and what pieces can I emulate. And it's the city-by-city concept to see systematized training and daily consumption. And that's pretty much what all the regions are following.



Unidentified Audience Member

Thanks. Can you talk about an average distributor just how much does that person make, like what kind of -- I [don't even have] a ballpark to that?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

That's a very difficult question, because does that distributor work part time, do they work full time? How long they've been in the business? How many customers do they have? So, there's really not --

Amy Greene - Herbalife Ltd. - VP, IR

What level they're at?

Unidentified Audience Member

Like top decile?

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

The top decile, I mean, when you start looking at our Chairman -- our President (inaudible) certainly they are looking -- the President's team members are making six, well under six digits, whereas if you have a new distributor that's six months into working part-time in a nutrition club, if they have -- it depends on how many customers that they have coming in that are paying membership fees and how much tack-on product as they are growing their customer base, how are they -- what their sell through is, is that really going to depend -- that really depends -- that's a very difficult question to answer, sorry. But it is on the website if you look, there is within the business opportunities of the website, there is a disclosure of what the average buy marketing plan level makes in the US.

Brian Wang - Barclays Capital Inc. - Analyst

All right, great. [That's fair]. Again, there's gift bags in the back for Herbalife. If you want to try some of the products. And thank you guys so much for coming.

Ibi Fleming - Herbalife Ltd. - SVP and Managing Director, North America

Thank you.

Amy Greene - Herbalife Ltd. - VP, IR

Thank you.



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