Pershing Square Issues Statement Regarding Herbalife

New York, July 15, 2016 //- Pershing Square Capital Management, L.P. ("Pershing Square") today released the following statement:

Today, the FTC, in its complaint filed in Federal Court concluded[1]:

> "In sum, Defendants' compensation structure incentivizes Distributors to purchase thousands of dollars of product to receive recruiting-based rewards and to recruit new participants who will do the same. This results in the over-recruitment of participants and the over-supply of Defendants' products and exacerbates participants' difficulty in selling Herbalife products for a profit.
>
> Participants in a business opportunity should have some reasonable prospect of earning profits from reselling products to customers. However, most Herbalife participants earn little or no profit, or even lose money, from retailing Herbalife products.
>
> In the absence of a viable retail-based business opportunity, recruiting, rather than retail sales, is the natural focus of successful participants in Defendants' business opportunity. Thus, participants' wholesale purchases from Herbalife are primarily a payment to participate in a business opportunity that rewards recruiting at the expense of retail sales."

Under Koscot, Omnitrition,Vemma and other key FTC pyramid scheme cases, the above findings constitute a pyramid scheme. While it appears that Herbalife negotiated away the words "pyramid scheme" from the settlement agreement, the FTC's findings are clear.

As part of the settlement, Herbalife can only compensate distributors for "Profitable Retail Sales," a genuine sale made at a price above the distributor's average total cost for the product. In light of the fact that the FTC found that Herbalife distributors make little or no profit, or even lose money from retailing Herbalife products, there are no longer any meaningful incentives to become or remain an Herbalife distributor.

The settlement also requires Herbalife to eliminate minimum purchase requirements and other inventory loading incentives. Furthermore, in order to maintain eligibility or advance in the plan, distributor requirements must be met through "Profitable Retail Sales" or sales to "Preferred Customers," who are not buying product to participate in the business opportunity.

We expect that once Herbalife's business restructuring is fully implemented, these fundamental structural changes will cause the pyramid to collapse as top distributors and others take their downlines elsewhere or otherwise quit the business.

The FTC complaint and settlement provide a roadmap for regulators in 90 other countries around the world to enforce similar requirements. We intend to work with these regulators to ensure that no future victims are harmed whether in the U.S. or otherwise.

We congratulate the FTC for enforcing the law that will lead to protections for consumers in the United States and the rest of the world.

About Pershing Square Capital Management, L.P.
Pershing Square Capital Management, L.P. ("Pershing Square"), based in New York City, is a SEC-registered investment advisor to investment funds. Pershing Square manages funds that are in the business of trading — buying and selling — securities and other financial instruments. Funds managed by Pershing Square are short the stock of Herbalife Ltd. and own put options on the company. Pershing Square may increase, decrease, dispose of, or change the size or form of its investment in Herbalife for any or no reason, at any time. Pershing Square may change its views about or its investment positions in Herbalife at any time, for any reason or no reason. Pershing Square may buy, sell, cover or otherwise change the form or substance of its Herbalife investment. Pershing Square disclaims any obligation to notify the market of any such changes. Please see the full Disclaimer appearing on website www.factsaboutherbalife.com and www.herbalifepyramidscheme.com.

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