HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Alan Quan
February 23, 2017
5:30 p.m. ET

Operator: This is conference # 50583540.:

Good afternoon and Thank you for joining the fourth-quarter and full-year 2016 earnings conference call for Herbalife limited.

On the call today is Michael Johnson, the company's chairman and CEO.

Richard Goudis, the company's COO, John DeSimone the company CFO, and Alan Quan the company's Vice President investor relations.

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

Alan Quan: Before we begin, as a reminder during this conference call comments may be made that include some forward-looking statements.

These statements involve risks and uncertainties, and as you know actual results may differ materially from those discussed or anticipated.

We encourage you to refer to today's earnings release and our SCC filings for a complete discussion of risk associated with these forward-looking statements and our business.

We do not undertake any obligation to update or release any revisions to any forward-looking statement, or to report any future events or circumstances, or to reflect the occurrence of unanticipated events except as required by law.

In addition, during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U. S. generally accepted accounting principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures.

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

Please refer to the investor relations section of our website Herbalife.com to find our press release for this quarter, which contains a reconciliation of these measures.

Additionally, when management makes reference to volumes during this conference call they are referring to volume points.

I will now turn the call over to our chairman and CEO, Michael Johnson.

Michael Johnson: Thank you Alan and welcome everyone, I am happy to say that we accomplished a lot in 2016, and I feel we are playing important groundwork for the next 10 years at Herbalife nutrition.

With that said, there are some key markets where we have work to do and I'll talk about those in just a minute.

But let's start with the financial results, as you saw from our press release today we delivered net sales that were equal to last year and up 6 percent in constant currency.

It is important to note that foreign-exchange headwinds continue to present a significant challenge.

When we initiated 2016 guidance on our quarter three 2015 earnings call, we projected a $.50 impact from currency.

As the dollar continued to strengthen over the course of 2016 the actual impact was nearly double that original forecast, with an impact of $.95 for the full year, including $0.11 for the four quarter for.

We offset this with our business with rigor and control and demanding greater efficiencies every step of the way.

Full-year 2016 reported EPS was $3.02 compared to $3.97 for 2015. While our full-year 2016 adjusted EPS was $4.85 compared to $4.95 for 2015. This is at the high-end of our guidance of $4.65 to $4.85. John will take you through our financial performance later in the call.

Last week we announced the closing of a $1.45 billion credit facility.

Today we are following up on last week's release by announcing that our Board of Directors has authorized to share buyback of up to $1.5 billion over three years.

This initiative reflects our continued commitment to creating long-term shareholder value, and signals the confidence we have for the future of our global nutrition business.

We accomplished some important milestones in 2016 that position us well for growth over the next 10 years.

In the U. S. we have business builders and consumers of our products presence October approximately 300,000 people have converted to were signed up as preferred members. People who love our products and want to enjoy them at a discount. This figure should leave no doubt in anyone's mind that there is genuine customer demand for our Herbalife nutrition products.

We have developed and ushered in new tools and technology that greatly enhance our customer data analytics.

We're in a special position to learn from our customers spending histories and interactions with our distributors with this trove of data we will better understand the nutrition products and services that they might want in the future.

What is more that we apply robust consumer intelligence through our distributor network, we will take our personalized customer experience to a whole new level.

On the product front, in 2016, we have launched over 460 new products and product line extensions across our markets worldwide . Our launches included new flavors of our best selling tea, aloe, and formula one shake ranges. In new products and mortar targeted areas of nutrition including immunity, digestion, and heart health.

All of these launches will enable us to better satisfy the taste, preferences, and nutrition needs of our customers worldwide.

And, as announced today, to further advance healthier living through good nutrition we have reached an agreement in principle to form a joint venture with Tasly holding group, a leading health products and services Corporation.

Based in Tianjin, China, Tasly manages a broad spectrum of pharmaceutical and consumer health products, healthcare services, and distribution channels in China.

The joint venturer will develop and commercialize high-quality products based on Tasly’s deep portfolio of proprietary formulations and patents in clinical studies, by leveraging Herbalife scientific regulatory and commercial development expertise to bring products to a global market through Herbalife's distributive network. A proposed joint venture furthers our business plan to expand our product range globally. Tasly's extensive patent portfolio of clinical research and traceability of key ingredients are an excellent complement to our seed to feed strategy.

It is a natural partnership, strategic collaboration, and we look forward to working with Tasly.

In operations we continue to expand our world-class innovation and manufacturing facilities worldwide.

In July we started operations at our new production facility in Nanjing to support our business in China.

We expanded our state-of-the-art manufacturing facility in Winston-Salem North Carolina which now produces 400 products, serves more than 50 markets, and employs about 1000 people.

We will be hosting our Herbalife nutrition honors event in Winston-Salem in March so that over 3000 of our top distributors from around the world can experience this is incredible facility firsthand. We now self manufacture about 65 percent of our products and are setting the standard for our industry in quality manufacturing. While most of our markets performed well in 2016, we continue to work through the challenges in Brazil, Korea and China.

Want to take a few moments to talk about the unique circumstances of all three markets, and what we are doing to improve them.

In Brazil we're ushering in business changes to focus our distributors on daily consumption and other methods that we expect will enable more sustainable customer growth.

However, we face a particularly challenging Brazilian economy, and a unique challenging consumer credit that is affecting many companies. And as a result it is taking us longer to turn the market around than we would like. In Korea we face a number of challenges, but we are encouraged on several fronts. For instance, our distributor leaders are eagerly building back their businesses and incorporating many of the daily consumption methods that we have seen proven successful in other markets like Russia and Mexico.

As evidence, we're pleased to see Korean supervisor activity rates grow by 20 percent last year . We know from our experience in the Russian speaking markets in Europe and more recently in Southeast Asia that moving towards daily consumption can take time , especially when it is coupled with a challenging marketing condition . But in all three of these examples the changes eventually resulted in a stronger and more sustained growth.

China faces a different issue and quite frankly we fell short in the second half of the year, perhaps nowhere in the world have our nutrition products been embraced more enthusiastically than in China, our third-largest largest market.

Our Chinese customers trust and value our premium quality nutrition brand and we have more active distributors in China than ever before.

As a result, over the past few years and into early 2016 we saw exceptional growth. However, in the second half of 2016 we saw a decline in our business.

To this end we have clearly identified the issues leading to the downturn and are confident that we have mapped out a plan that will return us to growth as we progress through 2017. Part of this plan relies heavily on going back to the basics, focusing on the importance of one-on-one personal relationships between distributors and their customers.

That was a catalyst to our success in China over the past several years.

As we described in our last earnings call, while increased use of social media helped introduce Herbalife nutrition to millions of Chinese consumers, it should've been used to complement, not replace the high touch personal interactions with consumers.

With all of that said, on a global front we achieved record volume growth in sales leadership retention in 2016. Volume points increased nearly 5 percent compared to 2015 to a record 5.6 billion. We grew volume in all but one region in 2016. Sales leader retention rate reached a record 60.9 percent compared to 54.2 percent in 2015. Despite the distractions our U. S. market grew volume for the year by 8.1 percent, and our sales leader retention in the U. S. grew to 75.3 percent last year.

Further demonstrating our distributors' commitment to the business.

At our core, we are about improving nutrition and helping people lead healthy lives.

Herbalife nutrition we have understood for 37 years that a personalized approach to Nutrition and Fitness and overall well-being generates the best results.

At the same time, we continue to see consumers shy away from brick-and-mortar stores and just this year national retailers announced the closure of more than 1000 retail locations in the U. S. alone.

Price competition explained some of these closures, but so too does the idea that consumers are seeking retail experiences that personalize service to their specific wants and needs.

What will really lead the next 10 years in nutrition retail is combining our great product range with the voice and personal support and mentorship of a distributor coach.

These incredible men and women walked their customers step-by-step through the process and the journey of making great nutrition choices as part of an overall plan that balances healthy eating and exercise.

This is a powerful person-to-person approach to our customers, and it is an approach that is helping us move nutrition and wellness, and the use of our products from occasional to daily consumption.

As I like to say, through our distributors and through our data analytics we have both a biorhythm and an algorithm.

As I said in my opening, 2016 is the beginning of the next decade for our company.

In June, our COO and my colleague Rich Goudis will take over as CEO of Herbalife.

As executive chairman, I look forward to working closely with Rich as he runs our company day to day, to assist him with the strategic decisions that we have ahead of us, and also to engage in motivating and inspiring our distributors globally.

Rich and I both believe, more than ever, that Herbalife nutrition has the most powerful distribution network anywhere, through the incredible work of our distributors, and the quality of our nutrition products we have earned the right to enter our customers daily routine, and owe the last mile in the journey to many millions of customers.

Over the coming years, we have an incredible opportunity to use that channel to make a difference in more people's lives than ever before.

Now, let me hand this over to Rich who will talk more in detail about our FTC implementation.

Richard Goudis: Thank you Michael and good afternoon everyone.

2017 will be a transformational year for our company.

As we implement retail sales tracking in the U. S. we're beginning to gather new consumer data and insights and help us advance our strategic operational and organizational approach to growth. In an industry that can at times be labeled opaque, we're working hard to modernize the nature of our business.

We have embraced this opportunity to complement our successful distribution efforts over the past 37 years with data-driven strategies to engage consumers on a far more personalized level, both through our distributors and directly with their consent By mining this smart data we can evaluate customer behavior patterns and usher in CPG type loyalty, sales, and marketing initiatives that will create a new catalyst for growth for our company.

On our last earnings call we informed you that we have initiated programs in October in the United States that allowed existing distributors to affirmatively self select the new status preferred member. A preferred member at Herbalife nutrition is an individual who exclusively joins to purchase a product at a discount, may not resell our products, or recruit someone into the business, and is not eligible for any form of compensation from Herbalife.

We shared with you early in November that we had approximately 50,000 preferred members at that time.

As this self-selection conversion continued throughout the end of 2016, beginning in mid-January, new individuals signing up were able to select the category that best matched their expectations.

As a result of these conversions of our existing members, coupled with new people signing up since January 12, the total number of preferred members has increased to approximately 300,000, clearly demonstrating that we have many members who are frequent users and purchasers of our products.

Let me reiterate, by affirmatively choosing to be a preferred member, these individuals acknowledge that they do not seek to sell products nor build a sales organization . With the self-selected designation which is approximately half of the U. S. member base, and growing, we have affirmatively identified members who are discount product members versus distributors, and as a result put to rest all doubt about the genuine consumer demand for our nutrition products.

While the segmentation of preferred members is exceeding our expectations to date, in terms of the number of preferred members, more importantly is the documented volume that this group represents is also exceeding our expectations to date.

As of the other day, we have nearly achieved the volume target that we estimated this group would achieve by May 2017. Let me clarify some confusion related to the 80 percent rule and the FTC order.

As many of you are aware, we will continue to reward compensation to our distributors in the U. S. on properly documented retail sales including reasonable levels of personal consumption.

Starting in May, the key change is that these rewards in the U. S. will be based on the final sales to end consumers as opposed to the initial sale from the company to a distributor.

If the total of these documented sales meets or exceeds 80 percent of the total U. S. retail sales, than the company will be able to pay out additional compensation on these documented sales.

However, if documented sales are below 80 percent of the U. S. retail sales, then the payout on documented sales will be capped at 10 percent above the total documented sales value.

We have a few slides included on the last investor presentation that further describes 80 percent methodology, and you can find this information on our investor website.

As of today we are currently tracking close to 60 percent towards the 80 percent threshold.

To be clear, and let me at this point hard copy 80 percent is not a compliance requirement, but a threshold that if passed would allow the company to pay out higher rewards for existing documented retail sales.

With the success of segmentation and documented volume from preferred members, we have now placed all of our energy towards the education and training of our distributors to increase the utilization of the newly developed receiving tools and distributor ordering website.

Over the past three months we've made great strides in the development and roll out of innovative digital tools to meet the specific needs of our distributors and preferred members.

We're fortunate to have an amazing technology team of over 400 employees based in our tech centers in Los Angeles, Bangalore, (inaudible) and Guadalajara who have implemented new online ordering platforms designed for each distinct group.

Just as important, we have a course senior distributor leadership group that has been extremely active in assisting in the development and beta testing of these receive tools and websites.

In fact, as we speak we have over three dozen distributors at our LA Tech Center who are participating in a third series of distributor testing and working on the next evolutionary release of these new tools.

We designed the distributor ordering platform for people looking to build a business.

The new site features the ability to build and customize a shopping cart for their customers, a place where they can safely maintain their customer contact details, and CRM type functionality to track their business intelligence metrics similar to the functionality you might find from sites such as salesforce.com.

The new preferred member site is more consumer minded and includes features more common to the shopping experience on sites like Amazon.

For example, suggestive selling and pairing of products, information about our nutrition products and ingredients, along with fitness advice and meal plans are all available.

To ensure we provide the very best products and services and continually enhance the online experience, we will closely track how distributors and preferred members navigate their respective sites including recommended products and actual purchases.

In mid-November, we launched the pilot phase of the Herbalife point-of-sale tool, essentially a Beta version.

This iOS and android mobile application is truly enhance the distributor user experience, allowing them to place customer orders , record customer activity including individual consumption and nutrition clubs, accept various forms of payment, and generate receipts directly on their mobile devices.

It also provides full visibility into their levels of retail volume and all transaction activity and information is stored securely on our company’s Oracle database.

Throughout this whole implementation period, our distributed leaders in the U. S. have been incredible partners and have been highly engaged to ensure proper retail sales tracking.

For example, in early January the company hosted training of our most senior U. S. leaders in San Antonio, and they later engaged with their organization at 51 kickoff meetings around the country.

These training education events had record attendance exceeding 25,000 people.

We're beginning to see the results of the training and utilization of the tools. In January for example, we processed approximately 196,000 receipts through our tools.

This month in February we expect to receive over and process over 700,000 receipts, which is a dramatic pickup and reflects the improving utilization of our U. S. distributors.

As we approach May we expect to process of excess of 2 million receipts each month, imagine that figure, imagine the robust systems and technology backbone we have built to accommodate this activity, and above all, imagine the information we will possess.

Information that will provide improved insights into consumers of our products.

Just amazing, and extremely exciting.

For distributors who may not be aware of the new digital tools, we are proactively reaching out over the phone and in person to provide education, training, and guidance.

To complement these efforts, we launched the promotion in the U. S. last week that incentivizes distributors to document their volume utilizing these new technology tools.

If all of these tools weren't enough to enhance our distributors business, last week we introduced a new loyal customer program as an incentive and reward for retail customers to interact directly with our distributors.

The loyalty program includes awards, access to a special order on the go Herbalife website, and educational materials for customers all in debt helping distributors improve the activity, longevity and retention of their customers.

We believe complying with the FTC order will create a barrier to entry here in the U. S. market for our company and other companies that changed their business practices.

The advances we're making in segmentation of our members which clearly delineates discount product customers versus distributors, the introduction of new technologies in the creation of smart customer data will provide us with further competitive advantage, enhances ability to consumer behavior, and preference would be a huge advantage for us. Our distributors' personal relationship with their customers, and unique permission those consumers give to our distributors to help them achieve their nutrition goals , combined with well-known go to market strategies and successful CPG companies, places us in an enviable position to leverage the last mile into millions of homes around the world.

We are excited with what lies ahead of us. With this let me turn it over to John for a review of our financials.

John DeSimone: Thank you Rich.

Today I will go to the company's fourth-quarter and full-year 2016 reported and adjusted results, our new bank deal and recently board approved share repurchase program, and we'll conclude with the first quarter and full-year 2017 guidance.

For the fourth quarter, worldwide volume points were 1.3 billion which is approximately 1 percent below the fourth quarter in 2015. The lower volume was driven by the decline in China, and a difficult comparison for India and Indonesia during the fourth quarter of last year, whereas noted last year we had a price increase in Q4 2015 in both of these countries, which had the effect of pulling forward 15 to 20,000,000 volume points into the prior year fourth quarter.

For the year, worldwide volume points grew 5 percent to $5.6 billion compared to 2015 which, as Michael previously noted 2016 was a record year in volume points.

Worldwide net sales for the fourth quarter were $1 billion down 5 percent on a reported basis and down 1 percent on a constant currency basis compared to the fourth quarter in 2015. Full-year 2016 worldwide net sales of $4.5 billion was flat with the prior-year, while full year constant currency net sales increased 6 percent compared to the prior-year period.

Reported net income in the fourth quarter was $99.4 million or $1.16 per diluted share compared to the reported net income of $84.5 million or $0.98 per diluted share for the fourth order in 2015. Full-year 2016 reported net income was $260 million dollars, or $3.02 per diluted share, compared to reported net income of $339.1 million or $3.97 per diluted share for the full-year 2015. Our reported EPS continues to include items that we consider to be outside of normal company operations, we believe will be useful to investors when analyzing period over period comparisons or results.

Please refer to our fourth-quarter earnings press release for details of these adjustments.

Adjusted diluted EPS for the fourth quarter was one dollar per diluted share, which is at the high-end of our guidance range of $0.80 to one dollar and compared to $1.17 per diluted share for the fourth quarter in 2015. Full-year 2016 adjusted EPS was $4.85 per diluted share, which compared to $4.95 per diluted share for the full-year 2015. Currency continued to have a significant impact on the results, fourth-quarter 2016 adjusted net income and adjusted diluted EPS were negatively impacted by $9.5 million dollars and $.11 per diluted share respectively due to the impact of currency fluctuations.

Both full year 2016 and reported and adjusted net income were negatively impacted by $82.2 million or $.95 per share due to the impact of foreign currency headwinds.

For the fourth quarter, reported gross margins decreased by 16 basis points compared to the same quarter in 2015 primarily due to the unfavorable impact of foreign currency fluctuations, partially offset by cost savings through strategic sourcing and self manufacturing.

Fourth quarter reported SG&A as a percentage of net sales was 40.4 percent approximately 60 basis points below the fourth order of 2015, excluding the impact of non-GAAP items which are disclosed in today's press release. Adjusted SG&A was 39.6 percent of net sales a decrease of approximately 70 basis points compared to the prior-year period.

Excluding China member payments, adjusted SG&A as a percent of net sales was 31.1 percent, approximately 40 basis points higher than the same quarter last year.

Our reported fourth-quarter effective tax rate was 26.4 percent while adjusted effective tax rate was approximately 29 percent which was approximately 280 basis points higher than the adjusted tax rate for the same period in 2015 primarily due to country mix.

At the end of the year we had $844 million in cash, of which approximately 62 percent was held in the United States.

Volume points for the U. S. were up 1 percent compared to the fourth quarter 2015, as the market continues to progress through the FTC implementation.

As we stated previously, these transitions can cause a short-term impact as they can take time away from a distributor’s normal sales and business building activities.

However, we are pleased with the market’s continued resiliency during this transition.

China's volume was lower than expected, down 11 percent for the quarter as Michael stated previously, we believe the fundamentals of our business in China remain sound, and we believe we have identified strategies to discuss the markets performance.

Mexico closed out the year with record volume in the fourth quarter experienced volume growth of 7 percent. The country continues to face significant FX headwinds as reported net sales for the fourth quarter declined 8 percent despite growth of 9 percent on a constant currency basis.

In 2016, EMEA eclipsed the 1 million volumes threshold for the first time.

This record result is a great achievement for the region which culminated with year-over-year fourth quarter volume growth of 5 percent, volume points for the Asia-Pacific region in the fourth quarter were up 1 percent, and up 9 percent excluding Korea compared to the prior-year period.

Strong performances from Vietnam, Indonesia, and India were partially offset by South Korea, which was down 31 percent year over year. As mentioned previously, fourth-quarter 2015 price increases in India and Indonesia resulted in a pull forward of volume which had an impact on the year-over-year volume growth comparisons.

Lastly, volume points in the South and Central American region for the quarter were down 16 percent compared to the prior-year period set by the continued softness in Brazil which was down 27 percent for the quarter.

Moving on to retention, as previously highlighted by Michael, 60.9 percent was a new worldwide record requalification rate for the last 12 month re-qualification period pending January 2017. This figure also includes sales leaders in the United States who have converted to preferred members.

As those individuals were not eligible for requalification, had those individuals and included in the calculation the figure would have been a record 59.3 percent.

As a reminder, when we implemented the marketing plan changes a couple years ago we stated we expected the changes to be visible in the retention rates as of January 2017. This result demonstrates the ongoing progression of our business.

We accomplished a lot in 2016, record volume, record sales and retention rates and FTC implementation. And we're off to a solid start in 2017, we have successfully closed our 1.4 5 billion credit facility, and new $1.5 billion board authorized share repurchase program.

On February 15 we announced the close of our 1.4 5 billion credit facility which consists of $150 million revolving credit facility maturing in 2022, and a $1.3 billion term loan maturing in 2023. With this new facility, we have paid down the $410 million revolver which would have expired in March of 2017. We believe the remaining funds combined with the strength of our balance sheet, will allow us to capitalize on our global market potential . In addition, this financial flexibility will enable us to further create long-term value for our shareholders through investments that include share repurchases.

Also, as announced today, our Board of Directors authorized a new three-year $1.5 billion share repurchase program, replacing the prior authorization that had $233 million remaining.

This buyback authorization will focus on creating long-term value for our shareholders.

We currently expect the combination of the new debt deal and the impact of the share repurchase program to be accretive to earnings per share in 2018. But it will likely be dilutive in 2017 because of the timing difference between the closing of the debt deal and the likely execution of any share buyback program.

Additionally, because of the timing, price, and amounts of the share repurchase activity are not predictable at this time, any impact to the share-base from repurchasing stock in 2017 has been excluded from our current guidance.

However, since the new debt deal is closed and it has costs are known, such costs have been included in our new guidance.

To summarize, 2017 adjusted EPS and volume guidance remains unchanged from the guidance provided a few weeks ago in our 8-K filing, other than adding the cost of the new debt deal, but excluding the impact of any share repurchases. With this modification in mind, guidance for volume points for the full-year 2017 remain unchanged, and are estimated to grow in a range of 2 percent to 5 percent with the first quarter 2017 volume point expected to be down 5 percent to 1 percent. We continue to expect net sales to be negatively impacted by currency headwinds for the full-year 2017 we estimate net sales increased 0.3 percent to 3.3 percent while currency adjusted net sales are expected to increase 2.6 percent to 6.6 percent.

Slightly down from our previous range of 3.9 percent to 6.9 percent primarily due to country mix.

For the first quarter, we estimate reported net sales to be down 9 percent to 5 percent, or down 7.2 to 3.2 percent on a constant currency basis.

From an EPS standpoint, excluding the impact of share repurchase full-year 2017 reported diluted EPS is expected to be in the range of $2.95 to $3.35 with adjusted diluted EPS guidance in a range of $3.65 to $4.05. For the first quarter 2017 reported diluted EPS is estimated to be in a range of $.50-$.70, and adjusted EPS is expected to be in a range of $0.75 to $.95. The full year estimates from adjusted EPS only differ from the estimates provided a few weeks ago due to the cost of the new debt deal.

Additionally both full-year and first-quarter EPS estimates include a projected currency headwind of approximately $.50 and $0.10 per diluted share respectively, compared to 2016. Capital expenditures for the first quarter are estimated to be within a range of $15 million-$25 million, and for the full-year within a range of $125 million-$155 million, a decrease of 5 million previous guidance.

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

Michael Johnson: Thank you John and Rich, the time is coming when consumers should expect product services and content to be customized and delivered to meet their personal wants and needs.

We believe Herbalife nutrition remains ahead of the curve, and is well-positioned to activate our independent distributors toward improving people's lives through better Nutrition and Fitness every day, as we continue to support all of our regions on this journey, and as we understand even more about our cost was nutrition habits through data , we see a very bright future for our business and our nutrition purpose.

I would like to take this opportunity to thank our incredible employees, distributors, customers and our shareholders for everything they do to help us serve our nutrition purpose in the world.

Okay, let's open it up to questions.

Operator: Ladies and gentlemen, at this time if you would like to ask an audio question, please do so by pressing star then the number one on your telephone keypad. Again that is star one to ask an audio question. Our first question is from the line of April Scee from RenMac.

John DeSimone: Hi April. I'm not sure if April is there. Next question please operator.

Operator: Certainly. Our next question is from the line of Tim Ramey from Pivotal Research Group.

Tim Ramey: Thanks so much.

If we were thinking about the May 15 implementation, where would you say that you are in terms of percentage completion of your tasks , are you essentially there, 95 percent there, still a little more work to do, how would you characterize that?

Richard Goudis: Yes Tim this is Rich, in terms of tasks I think all but really going live and turning on the new compensation system, everything else is either completed or just about complete. So we feel very confident for the amount of tasks and we share with you a lot of insights and data and numbers on how we are progressing on some very key metrics, and more importantly less than half of the U. S. population today for our member base are preferred customers, right? Discount customers who can't resell the product or who don't want to sign up somebody else, so we put to rest all of the hogwash out there about not having real customers.

Tim Ramey: And, John to kind of back into the number, do you think the impact of the debt deal alone about $.55 per share in 2017?

John DeSimone: That's correct, yes.

Tim Ramey: That's a little higher than I thought it was going to be. In terms of choosing the structure for the share repurchase, obviously there's an option of a more accelerated structure that would have greater accretion benefits, why did you choose the structure that has less accretion?

John DeSimone: I'm not sure that I agree with the analysis, I think certainly we would have more accretion in 2017 if we did something immediate as opposed to doing it more on an efficient basis, I think 2018 timing doesn't matter, only price and how efficient we execute the deal matters for 2018 to 2019 and 2020 and beyond, so for long-term accretion, proper execution of a buyback from an economic standpoint is the most important thing. By the way that may or may not be a tender, we have not ruled it out, it's just an option that's on the table as well as a lot of other options.

Tim Ramey: Okay. Thanks.

Operator: And our next question is from the line of Michael Swartz from SunTrust.

Michael Swartz: Hey good afternoon guys.

John DeSimone: Hi Michael.

Michael Swartz: Maybe just run through China in a little more detail, maybe what you have diagnosed there, and maybe how you saw China progress through the quarter and into February, and how we should think about volume, revenue growth playing out through 2017 .

Des Walsh: Hi Michael this is Des. So listen, obviously we spend a lot of time recently on China and very much focused on it, and what we have identified are two key areas. First of all what we saw during the year is that a key group of our leaders there transitioned their business away from the club model and onto social media, and what that drove was substantial increase in the short term in terms of social media's ability to embrace a large group of customers. And what we saw as we went through the year is that the stickiness of those customers was minimal compared to what we were experiencing in the clubs. But as you know our distributor leaders tend to follow success, and so when you have one group achieving significant success, others tend to follow that. But now when we look into the numbers, and we've actually analyzed the numbers along with our key leaders in the market, they did recognize the fallacy of that so that group is now switching back to what we have seen be effective in other markets which is using social media as a tool to supplement rather than to replace activity in the clubs.

The second situation is that we have seen the migration away from smaller clubs to larger clubs, and again in the short-term it seems like a good idea right because you actually have lower operating costs you've got distributor and service providers working together, but as we know this is a neighborhood business. And so people want to attend clubs in their neighborhood and so what we saw is that initially the clubs are very successful, but then we saw the actual customer accounts drop off in those clubs, so again when we compare those regions of the country where the clubs have remained following the traditional model of a large number of clubs and neighborhood clubs and compare that to the areas where they moved away from that model, the distinction is clear. So again the same philosophy and work with our leaders, show them that by returning to what has worked in the past and will work in the future, we know see our leaders focusing on reverting to what has been successful in the past.

John DeSimone: If I could just add a little to that.

Two comments, one is the number of active service providers in China is at a record high cost of the number of people engaged is still strong and that's a good sign, because they are still involved in the business so we can still change their behavior. And the second is regarding profiling China during the year, we said even before the results of the fourth quarter were a little disappointing versus expectations that Q1 would be a difficult comp anyway because the timing of the Chinese new year, so Q1 will be a challenging quarter.

Michael Swartz: Okay.

That is helpful, then maybe just within guidance and you're announcing this new JV in China with I believe it’s Tasly, could you just give us a little bit more color on that and then maybe, John is that included in your guidance from both maybe a cost perspective and a top line perspective customer?

John DeSimone: The cost is, there is no top line.

Yet, any benefit, the benefit of the JV will take some time for sure, and second it would be upside. And just one clarification before I pass it over to Rich to talk a little bit about the substance of the deal, it's a global deal with the Chinese company, just wanted to make sure that's clear.

I will pass it over to Rich to provide a little bit more color.

Richard Goudis: There's a very big strategic line between the philosophy at Tasly and Herbalife and our seed to feed initiatives.

They had some very interesting technology in the standpoint of a seed bank, and they have their own farms and fields, they have their own extraction facilities, and big picture they have a lot of intellectual property that we think with our commercialization know how, we might be able to market around the world, so we're excited.

Operator: Once again to ask an audio question, you may do so by pressing star then the number one on your telephone keypad. Again that is star one to ask an audio question. Our next question is from the line of April Scee from RenMac.

April Scee: Hi sorry about earlier guys, I just have two more questions on China, and the first is just on the China investigation, I was hoping you could give us an update and maybe provide some confidence that this is different than what we thought Elon or NuSkin and it's not going to disrupt your business. Then just real quickly on the China JV if you don't mind, is there any way in which this can actually help you in the China market in addition to the other reasons you have stated for why the deal was done?

John DeSimone: I could take both of those and start with the second one, the deal was done exclusively because Tasly has great content and we have great distribution, and those two things can be a great marriage, and it is a global deal and that was exclusively the reason.

Regarding your first question, there is not a lot of color, you know we have a lot of confidence in our compliance program. We spend a lot of resources and effort on our compliance in China, we have six internal auditors and four accounting firms that are stationed in Shanghai and have been as part of our compliance program for a number of years, and we have a strong commitment to compliance, and if we find somebody has violated that commitment to compliance then we will deal with it, but there’s nothing at this point to disclose.

April Scee: Okay. Thanks guys.

Operator: At this time I show no more audio questions.

I would like to turn the call back to Michael Johnson.

Michael Johnson: Thank you everyone thank you for being with us today, and this meeting or this call summarizes that 2017 will be a transformational year for the company.

We’ve got opportunities and challenges, but this is an incredibly resilient business, and I think we pointed out we are working with our distributors to make sure that we improve the trends in China and Korea we have a team of executives dispatched there, our distributors are very, very dedicated and we make sure that their passion is resulting in better sales in each of those markets.

Our opportunity as it always has, outweighs our challenges and we have a great future ahead of us. We have a great company, a leverageable distribution channel, and megatrends that will provide a catalyst of growth for years to come.

We thank you for being with us and look forward to talking with you next quarter.

Thank you very much.

Operator: Ladies and gentlemen this does conclude today's conference.

We thank you greatly for joining us for the Herbalife fourth-quarter earnings conference call.

You may now disconnect

END