HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Eric Monroe
May 3, 2018
5:30 p.m. ET

Operator: This is Conference # 6562099

Operator: Good afternoon and thank you for joining the First Quarter 2018 Earnings Conference Call for Herbalife Nutrition Limited.

On the call today is Rich Goudis, the company's CEO; Des Walsh, the company's Executive Vice Chairman; John DeSimone, the company's Co-President and Chief Strategic Officer; Dr. John Agwunobi, the company's co-President and Chief Health Nutrition Officer; and Eric Monroe, the company's Investor Relations.

I would now like to turn the call over to Eric Monroe to read the company's safe harbor language.

Eric Monroe: Before we begin, as a reminder, during this conference call, comments may be made that include some forward-looking statements. These statements involve risk and uncertainty, 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 SEC filings for a complete discussion of risks associated with these forward-looking statements in 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, for additional supplemental information and 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 CEO, Rich Goudis.

Richard Goudis: Good afternoon, everyone. Thank you for joining our first call as Herbalife Nutrition Limited. We're excited about the name change, which was approved by shareholders at our April General Meeting because we believed this new name is more reflective of our purpose to make the world healthier and happier, and it better communicates our strategies and investments to position us a leader in the nutrition industry.

In the first quarter, we exceeded expectations as we return to growth in the U.S. ahead of schedule, and as such we raised our financial outlook for the year. This is an exciting time for the company. In the area of products, we're introducing more products than ever before. The speed of introductions has increased, and the degree of collaboration on ion with our distributor leadership has never been stronger.

In the area of technology, our acute focus to develop tools that improve the efficiency and productivity of our distributors is accelerating with the continued Beta test of connect what we formerly call salesforce.com project.

In the area of education and training, we continue to increase our focus and investments to enhance our distributor difference so our distributors in turn can help their customers achieve better results. And with our success in the U.S., where our first quarter of 2018 was greater than the highest quarter in 2017, we are clearly leading the industry.

For the quarter, volume, net sales and EPS all exceeded our guidance. This is a testament to the hard work of our entrepreneurial distributors and the teamwork across our company.

Now on the topic of teamwork, I'm thrilled to announce that, once again, we're included in the Forbes list of America's Best Midsize Employer for the third consecutive year. We also had very encouraging distributor metrics in the quarter. Let me share a few highlights with you.

Worldwide Average Active Sales Leaders increased 3 percent year-over-year following 3 quarters of decline. And in the U.S., we welcomed over 67,000 new preferred members to our community of like-minded people, the highest number since we began segmenting the sign-up applications in the first quarter of 2017. In addition to our positive financial performance, we continue to execute initiatives designed to accelerate shareholder value.

A few recent key initiatives were the completion of the refinancing for a portion of our convertible notes and the commencement of our modified Dutch auction tender offer to buy back up to $600 million of our common shares. As you can see more reported numbers and as you'll hear on this call, we are confident about our future, and as a result we raised our guidance for the full year. John will give you the details of our financial performance and guidance in just a few minutes.

Our success continues to be attributable to the dedication of our entrepreneurial distributors and the difference they play to help ensure their customers receive the proper nutrition education, coaching and support and, of course, consumer great nutrition products to achieve their nutrition goals.

Distributors are our unique point of difference. They play an important role in their customers' lives, providing them with much-needed nutrition education, support and encouragement and create communities of like-minded people whether Nutrition Clubs and food camps or through weight loss challenges and other methods of operation.

This one-on-one high-touch customer experience that our distributors create is critically needed in our industry because of the complexity of nutrition and the individual needs and personal differences among consumers. The distributor difference is especially important in weight management due to the behavior and lifestyle change consumers needs in order to adopt a more healthy and active lifestyle.

This is our competitive advantage over traditional and online retailing of nutrition products and one that we intend to continue to strengthen. Our extensive product lineup is also important in helping the customers of our distributors achieve their desired results. Our Seed to Feed program, where we've invested over $300 million since 2010, ensures we have traceability and control over key ingredients.

And today, we self-manufacture approximately 65 percent of our nutrition products in our state-of-the-art facilities, including our top products, to offer consumers more choice than ever before and provide us with the necessary flexibility and capacity to support future growth. Additionally, we are expanding our portfolio of products to help our distributors attract new customers and retain their existing customers longer.

In the first quarter, new products and line extensions contributed to our growth as we launched more than 65 products globally. Let me mention just a few to highlight our underlying strategies.

In EMEA, Pro 20 Select is off to a great start, launching in 12 markets in the region and ranking among the top 3 selling SKUs in some markets. As a reminder, this product expands consumer choice in our protein shake portfolio, leveraging trends in the natural food and beverage market by offering a convenient water-mixable shake with more protein per serving, lower sugar and no artificial colors or sweeteners.

We will look to build on this product's success and introduce similar products in other key markets in the next 12 to 18 months.

Following our launch of the first new flavor of our top-selling product, NRG tea, in Brazil last quarter, we introduced a second flavor, green apple, in Mexico in January. It is proven to be a popular product so far, ranking one of the top 10 SKUs in the country. Based on this success, we are exploring similar opportunity in key markets to create and satisfy consumer demand and drive increased consumption of our top-selling products.

Early in the first quarter, we introduced our first Formula 1 shake made specifically for Nutrition Clubs and is currently among the top 10 SKUs sold in Brazil. The product comes in an 80-serving size pouch delivering improved economics for our distributors. With the success of this product, we are evaluating and prioritizing additional markets to introduce a similar large format offering to help improve distributor economics for nutrition club operators around the world.

In February, for the Chinese lunar New Year, we launched a limited-edition Formula 1 red bean and coy seed flavor. This flavor was developed locally and is in line with our strategy to develop flavors that resonate specifically with consumers in each market. This product had tremendous sales performance selling out in only two months, further validating the success of this strategy and our ability to develop and manufacture local flavors of our top-selling products.

In India, following the same strategy, we launched Formula 1 strawberry in January. It has exceeded our initial sales forecast and is the second most popular SKU in that country. We also launched a complementary product, Formula 1 Dino Shake Strawberry for kids. And for the first time in India, we introduced our global top-selling Herbal Aloe Concentrate to expand our digestive health offering.

To wrap up the discussion on new products, let me give you 1 example of what we're doing and how we're working with our distributor-leaders to accelerate new product introductions. In March, we hosted 2500 of our top leaders from around the world here in Los Angeles. An exciting highlight for me was having our distributors experience our Concept Cafe, where our marketing and R&D teams shared samples of new products and innovative product concepts.

The reception to these new concepts was amazing, and we're now working with our regional distributor committees to prioritize many of the new products they sample. We anticipate that you'll see significant activity in the area of new products over the next 12 to 18 months, products that will expand our offering into new daypart segments along with products in new categories that will enable our distributors to attract new customers and extend the life cycle of their existing customers.

Increasing our investments in education and training is another key strategy for our company. Working with our top distributor leaders, we've created a new more personal and intimate educational experience. It was introduced at a premier leadership event in Los Angeles last month delivered via master classes and breakout sessions that enabled distributors to personalize their education journey.

We believe the more educated and better trained our distributors are, the more confidence they will have and more value they will bring to their organizations and their customers.

We've also been able on a journey to educate key thought leaders and influencers about the value of what we bring to communities around the globe. This strategy is playing out in key markets where we do business and is extensive and ongoing. On our last call we talked about our participation in South by Southwest here in the U.S. So on this call, let me share an example of what we're doing in China.

Our local team in China is continuing their outreach to thought leaders, and later this month, we'll partner with the Chinese Nutrition Society on National Nutrition Week, the largest official nutrition event in the country. CNS is a nonprofit organization dedicated to bring together academics, research institutions and industries to advance the research and application of nutrition science for health, well-being and disease prevention.

This year's event will be titled Healthy Weight, Eat Smart and Exercise Smart. As a major sponsor since 2015, our experts will be featured alongside CNS officials giving keynote presentations and conducting media interviews.

This partnership in China is a key strategy to further strengthen our position as a premier nutrition company in this important market, and we believe our participation will help ensure we continue to be part of the conversation about the future of nutrition through our positive solutions to global megatrend such as obesity.

As I look to the future, I'm excited about the possibilities we have as we invest in our high-touch, high-tech approach to nutrition and continually strengthen our distributor difference. Since 2010, we've invested over $300 million in technology creating an enviable and leverageable global Oracle-based platform. A key element of our strategy to leverage our technology investment is the launch of HN-connect using salesforce.com.

Our Beta test went live in the U.S. in January with a small group of distributors, who are testing several journeys that have been developed with their health. These journeys include e-mail campaigns that personalize the customer experience and automate tasks for our distributors based on the specific needs of their customers.

Automating marketing tasks and personalizing the customer experience our artificial intelligence, including suggestive selling, gives our distributors the freedom they need to focus on the difference they make in people's lives through personal support, coaching, other one-on-one, relationship activities and creating communities of like-minded people in person and online.

HN-connect was first showcased at our kickoff leadership event in Orlando earlier this year and again in March at our event for global leaders in Los Angeles, where some of our investors also had a chance to experience these new tools. Early feedback from our distributors has been positive.

As we move through the summer months, we will continue to build functionality working with our distributor leaders in preparation for a broad launch of Phase 1 later this year. Additionally, we are evaluating future market introductions after the U.S. rollout is complete.

Before we move on to John and the financial update, I'd be remiss if I do not public thank Des Walsh for his leadership as our president since 2010. On May 1, Des moved into his new role as Executive Vice Chairman. His dedication, passion and strong distributor relationships have contributed greatly to our success. And, more importantly, his development of our future leaders has set us up for an amazing future.

Let me also congratulate again John DeSimone and Dr. John Agwunobi on their promotions to co-president this week, envision to our solid growth strategies, our quality products and our amazing distributors and employees, it's our incredible bench strength of talented executives that makes us also optimistic about our future.

Additionally, the quality leaders who are willing to serve on our Board of Directors also make us confident about the future. Last month, we welcomed 4 new board members whose expertise will help our company deliver on our purpose of making the world healthier and happier.

They are Nick -- portfolio manager for Icon Enterprises; Al -- former Chief Financial Officer at -- Corporation, a leading provider of consumer products; Juan Miguel Mendoza, independent Herbalife Nutrition distributor for 25 years and a member of our prestigious Chairman's Club since 2013; and Margarita Hernandez, founder and CEO of Hernandez Ventures, a private firm engaged in the acquisition and management of a variety of business interests.

And finally, I'd like to extend a heartfelt thanks and gratitude to those who just stepped off the board: Dick Birmingham, who's a board member since our IPO; Perdoso -- an independent distributor, who served for 8 years; and Keith -- CEO of Icon Enterprises whose exemplary service and leadership helped see us through a critical time in our company's history. Now I'll turn it over to John for the financial details.

John DeSimone: Thank you, Rich. Today I will start by discussing the company's first quarter 2018 reported and adjusted results, which will include key market highlights. I will then review the second quarter and full year 2018 guidance and conclude by providing a brief update on our share repurchase program.

First quarter reported net sales of $1.2 billion represented an increase of 6.8 percent compared to the prior year. Volume points for the first quarter were $1.4 billion. And despite a very challenging comparison, it nearly matched the prior year's first quarter led by the U.S. returning to growth ahead of plan.

This is also the third quarter in a row where 5 of our 6 regions showed sequential improvements in volume point trends. We reported net income of $82.1 million or $1.08 per diluted share for the first quarter of 2018 compared to reported net income of $85.2 million or $0.98 per diluted share for the first quarter of 2017.

Adjusted earnings per diluted share were $1.40 compared to $1.24 per share for the first quarter of 2017. The adjusted diluted EPS figures continue to exclude items we consider to be outside of normal company operations or we believe will be useful to investors when analyzing period-over-period comparisons of our results. Please refer to our first quarter 2018 earnings press release issued today for additional details on these adjustments.

Our first quarter adjusted diluted EPS exceeded the high end of our guidance range of $0.90 to $1.10. This EPS beat was driven by the higher-than-expected sales as well as excess tax benefits from the exercise of equity grants partially offset by lower gross margins. Reported gross margin for the first quarter of 79.6 percent decreased by approximately 180 basis points compared to the prior-year period.

This decrease was driven primarily by foreign currency fluctuations and increased self-manufacturing costs from a planned inventory reduction. Both of which were discussed on last quarter's conference call. Additionally, we experienced higher inventory write-offs in the quarter partially offset by the favorable impact of -- price increases.

First quarter 2018 reported and adjusted SG&A as a percentage of net sales were 39.1 percent and 38.5 percent, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 29.1 percent, approximately 50 basis points higher than the first quarter of 2017. The increase was primarily driven by a change in revenue recognition accounting rules implemented in 2018 that increased both net sales and SG&A by approximately $6 million.

This accounting relates to the accounting of sales to importers, a model we used for approximately 3 percent of our net sales. This change in accounting rules had no impact to net income. Our first quarter reported and adjusted effective tax rate were 10.2 percent and 10.6 percent, respectively.

This was significantly lower than our expectations primarily due to excess tax benefits and the exercise of equity generated during the quarter along with other discrete benefits. Excluding the impact of equity grant exercises, our adjusted effective tax rate would have been approximately 1600 basis points higher.

Shifting now to our regional market highlights. In the U.S., the momentum we have previously observed continued as we returned to growth a quarter earlier than expected.

We look to build off the strength in the first quarter and expect to see trends continue to improve during the second quarter. In China, Q1 2018 volume points decreased 22 percent. As a reminder, this decline in China was expected because volume points in Q1 of last year was higher than otherwise would have been due to a price increase implemented at the beginning of April 2017, which resulted in our distributors and customers buying extra product in March 2017 in front of this price increase.

Normalizing Q1 2017 for the impact of the price increase, China would have been relatively flat compared to the first quarter of last year.

Turning to Mexico. We saw a meaningful improvement in trends in the quarter with volume points down just 2 percent coming off declines of 9 percent and 8 percent in Qs 3 and 4, respectively. During the first quarter of 2018, we tested a small volume point value change on a few products in Mexico that benefited the comparison in the quarter by approximately 170 basis points.

The Asia Pacific region showed 10 percent year-over-year growth with notable performances from India, Indonesia and Malaysia, while EMEA grew 7 percent, its 32nd consecutive quarter of growth.

Moving ahead to guidance. Worldwide volume point guidance for 2018 has been updated to a range of 3 percent to 7 percent growth. This reflects the beat of volume points in the first quarter along with slightly higher expectations for the U.S. for the remainder of the year. Our combined volume point projections for the remaining markets are primarily unchanged from the guidance provided a quarter ago. For the second quarter 2018, we estimate volume points to grow in a range of 4 percent to 8 percent.

With respect to full year net sales guidance, we are raising previous estimates of 5.5 percent to 9.5 percent growth by 350 basis points to a range of 9 percent to 13 percent growth. This reflects the better-than-expected results from the first quarter and a favorable movement in currency since last quarter. Currency is expected to have an approximate 330 basis points tailwind to full unit sales, which is 150 basis points higher than our previous guidance.

For the second quarter 2018, we estimate net sales to be within a range of 8.5 percent to 12.5 percent growth, which includes an approximate 370 basis points currency benefit versus prior year. Our currency impact for the full year and second quarter both exclude Venezuela due to the hyperinflationary impact of currency, weight exchanges and associated price increases in that market.

Full year reported diluted EPS is estimated to be in the range of $3.95 to $4.35, and adjusted diluted EPS guidance is expected to be in a range of $5.05 to $5.45, up from the previous ranges of $3.82 to $4.22 and $4.60 to $5, respectively. Full year reported and adjusted diluted EPS included currency benefit of $0.26, an increase from $0.13 included in our previous guidance.

Second quarter reported diluted EPS is estimated to be in a range of $0.90 to $1.10 and adjusted diluted EPS to be in a range of $1.15 to $1.35.

Second quarter reported and adjusted diluted EPS include a projected currency tailwind of $0.07 compared to the second quarter of 2017. These estimates are all on a pre-stock split basis. And as a reminder, our shareholders approved the stock split effective May 7 with the stock split distribution date of May 14. We are also slightly lowering our capital expenditure executions for the year to a range of $110 million to $140 million.

Additionally, second quarter capital expenditures are expected to be within a range of $25 million to $35 million. Full year effective tax rate guidance remains unchanged at 30 percent to 35 percent on a reported basis and reduced to 23 percent to 28 percent on an adjusted basis, primarily reflecting the excess tax benefits recognized in the first quarter.

Second quarter effective tax rate guidance is 36 percent to 41 percent, while the adjusted effective tax rate is expected to be in a range of 29 percent to 34 percent. Lastly, I'd like to make a few comments on regard to cash, debt and our share repurchase activity. Since we spoke last quarter, we announced multiple strategic initiatives designed to enhance shareholder value.

As part of this plan, in March, we completed a new convertible debt offering of $550 million that effectively resulted in a refinancing of approximately $475 million of our outstanding convertible notes that mature in 2019. Additionally, we announced a tender offer seeking to repurchase up to $600 million of common shares, which we expect to close on May 24.

We believe the completion of the refinancing allows greater flexibility in the use of capital, while the tender offer is consistent with our long-term goal of returning value to shareholders. Our guidance assumes the entire $600 million tender is completed later this month. At the end of the quarter, we had $1.3 billion in cash, $2.2 billion in total debt, and approximately $900 million in net debt, all prior to the execution of the tender.

Thank you, and this concludes our prepared remarks. Operator, please open the line for questions.

Operator: At this time, if you would like to ask a question press “star” then the number “one” on your telephone keypad. Again, that’s “star” “one”. Our first question comes from the line of Doug Lane with Lane Research.

Douglas Lane: John, just on the buyback here. You mentioned you now have a full $600 million baked into your outlook this year. Before I think you had $200 million. Can you give us an idea for what that differential will the impact EPS is, the additional $400 million?

John DeSimone: Yes, around $0.08.

Douglas Lane: $0.08? OK.

John DeSimone: For the rest of the year. That's not an annualized number. That's just the impact on the change in guidance…

Douglas Lane: For this year? Right, right. I get that. And stepping back, 1 number that really stuck out, and I know that China is a little bit tough comparisons from last year. But the average service providers for volume points was a big jump year-over-year and sequentially. Can you give us a feel for what's going on there and what the implication is? Is that going to translate directly to volume points as soon as this quarter or how should we think about that?

John DeSimone: China is a little bit volatile in the last 6 to 8 quarters as you probably tracked. I think one of the things that we talked about last quarter on the earnings call were two things we're doing in China. One was the $90 million investment program that's not going to be $105 million because as you noticed in our earnings release, we received another $15-ish million in grant, and so we're going to add that to this program, this investment program.

Another thing we did is we augmented the marketing plan in China with eligibility to train based on allowing people to earn money a little earlier in their journey than they may have in the past. As a reminder, in China, things work a little differently in that people's eligibility to earn.

If you're a service provider is not materially different in the amount than the rest of the world, but how you access that is through based on your eligibility we have created a supplement to that that allows people to get eligible to earn paid training a little sooner and we think that's helped with engagement. So whether that translate to improved long-term trends or not is something where following right now the change that we made is a test and will see how it works out.

Douglas Lane: OK. OK, that's helpful. Then just one last thing the North America number was certainly a lot better than what I was modeling and the volume points back to flat already. Already it sounds like from your previous commentary that is a trendline thing there wasn't anything unusual in the order that go to get anywhere.

It's just that business has round a little bit and maybe give us some sort of drivers there and if you could comment also on the project with salesforce and how that's panning out? Where you start to see some benefit from that investment?

Richard Goudis: Yes, so I think to answer the first part of your question, there was nothing unusual from a timing perspective in the U.S. So it wasn't that Q1 -- away from future quarters. In fact, when you look at our increased guidance for Q2 from a volume standpoint, it's almost exclusive the coming from the U.S.

We did implement a new promotion that we may make permanent, which is through documented sales we're receiving to distributors people from qualified to become a sales leader at a lower volume in one or two months than they've done in the past. And that's really benefit of having documented sales because you know everything is going to the end-user so that something that we to use it to and it's going really well, and I think it creates a lot of confidence in activation.

Not to mention just the adjustment period for the implementation of the changes we made 3 quarters ago to going of work mostly through the system so all that is kind of combine to generate a lot of confidence and excitement in the U.S.

Douglas Lane: And on salesforce?

Richard Goudis: And on sales force, it's early. On salesforce, we launched with the beta group in January, small group. It's not going to get to be a bigger group until I think in summer once it's designed a way that we think distributors will like it when it's launched. I think the worst thing we could do is will drive trial to a product, so we have to make sure at the point where it's effective and that's as planned that's part of the process. And so I think it will be big group in the summer.

I think by the end of the year, you'll start seeing some impact of it. It's really much more of a driver for 2019. But it is as you heard from Rich's script priority right now.

Operator: Our next question is from the line of Mike Swartz with SunTrust.

Michael Swartz: Hey, John, maybe can we take a step back on guidance and maybe you can just help us understand, I guess, the bridge between prior guidance and current guidance. It looks like you're picking up some in obviously this -- with the tender a little bit with currency, and then I would assume there is a flowthrough of the tax benefit in the first quarter that benefits the full year as well. So maybe you can help us understand that better?

John DeSimone: Yes, I think maybe the simplest way to understand it is focused on the high end of guidance. Previously, for the first quarter, it was $1.10. We came in at $1.40 on an adjusted basis. That's a bit of $0.30. We raised the range for the full year up $0.45, so a $0.15 incremental change to the positive side. The two key drivers on the positive side were FX on $0.09 and the share base from the buyback, which is another $0.08.

And then we are kind of an offset of $0.05 from the new debt deal, which has slightly higher interest than the convertible that we replace and then some other incident out some minor stuff that we'll get you right around the $0.45 incremental change in guidance.

Michael Swartz: OK, that's helpful. And then just, Rich, in your prepared commentary and notice going back a couple of quarters more and more talk about product development and expanding the so-called arsenal in Herbalife. I would assume that comes with the stepped-up cost in terms of product development R&D. Maybe can you give us a sense of how much incrementally you might be spending longer-term around product development?

Richard Goudis: Well, that's a great question. I think what you're hearing we know is really just a reflection of the investments we've made. The tools and that you want to be put in place, the prioritization efforts that we have been working on both internally and with our distributor leaders so and also focus, right? We're more on the offense today than ever before. Our distributor leaders to get it into new product categories, and we're just the acceleration is just happening. John?

John DeSimone: Yes, one of the things -- I think it's a great question because certainly the priorities for the company have matured over the last 4, 5 years from changes that we had to make in resources on to something a little more proactive and driving growth. And so one of the initiatives that the company this year heading into next year.

It may not be exclusive around the world but certainly within certain regions Inc. is a zero-based approach so that we can figure out if and now we fund some of these new initiatives through defunding some of the other things that may have these so that is something we're working on this year.

Michael Swartz: OK, that's help. And then, John, just on Mexico I think you said that you're running a test benefit -- sorry, test program there in the quarter? Could you just provide a little more color on what exactly you are doing and then maybe want to buy the benefit that you had an volume points from that?

John DeSimone: Yes, I think it was 170-ish basis points to the volume point change in Mexico. I may be off by 10 point or but I think it was 170. And that's from a change in volume points. We did two tests in the first quarter. One was in March and then almost no impact in that was in Brazil. We did another one in Mexico and this was increase in the volume point value on certain nutrition's club SKUs in Mexico.

It was our Formula 1, which was obviously number one product had a different volume point ratio than some of the other products in the market. So we're testing to see if increase in volume point value and some of the nutrition club markets would make it easier for some of the Nutrition Clubs in Mexico to qualify.

And in Brazil along those same lines, in Brazil we launched a nutrition club that was 80 servings that is going to have a higher point per serving than the attritional Formula 1 and the reason is we want clubs to get into the C and D markets in Brazil the price point to be lower but you don't want to have to get more customers to qualify so it's a balancing approach.

And is a test to see how it goes in over time, if it's of value to our distributor then we'll make more.

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

Timothy Ramey: I think this was the first time we've seen the revaluation on the CDR. And that might've been just because the only -- I don't know fourth quarter maybe hadn't moved enough. How often are you going to have to reevaluate? Is it a continuous thing or once a year kind of thing?

Richard Goudis: Yes, it's every quarter. Kind of a morning call revaluation approach to the third party who value. So the reason that appears to have more values because of the stock price went up. That doesn't change the probability of an event happening. So the reality is we carve it out because the reality is some point in time, if you don't it before now and the end of the CBR.

All that balance sheet come through to the credit of the been on the think and we don't want to organize that income just like you're not organizing and expand. It's all just kind of noncash valuation just going to have it and as so it has nothing else to do with. I don't want to think that is more valuable because some folks that is not the case. Certainly just a third party valuation analysis.

Timothy Ramey: Understood. And then China income, I assume that, that's you expenses related to China investment thing but no income this particular quarter or did I misunderstand?

John DeSimone: No, it's the other way around. So we didn't start spending against the program but we received another $15 million or so of grant money from the Chinese government in the first quarter.

Timothy Ramey: OK, all right. What would you net expenses into that single line when that happens?

John DeSimone: Will -- if we can, we will. If we can't we'll just identify it to so you can get your models appropriate.

Timothy Ramey: OK, and I guess that China investment thing was announced pretty late in the first quarter. But I'm surprised there wasn't some investment?

John DeSimone: It was announced late I won't say in the middle of February. So there wasn't enough time to actually execute against it. Again, we're calling our program instead of a fund so people are not confused as to exact aware touch of what it is because investment point the people this is an investment program that we have -- right OK, so that is starting in Q2 you'll see some expenditures against that.

There were different programs that we're expecting to start in Q2. And so on the next call, you will hear some dollars in and a little more specifics on the initiatives that are being launched in that program.

Timothy Ramey: And let's assume perhaps not even to o aggressively that the stock trades above $108 tomorrow morning. Now what we do? I mean, I'm hoping we don't go right down to the wire on the 24th before we say let's take another 10 days to adjust the range? Have we made a plan?

John DeSimone: Yes, it's not a topic I think we can comment on, on this call.

Operator: Our final question comes from the line of Beth Kite of Citi.

Beth Kite: If you could just first start on the U.S. preferred numbers, on that strong growth of new joiners you saw in the first quarter of '18, were there any specific initiatives or anything you sort of attribute to the growth of preferred members? And then also how is the renewal rate from the first 63,000 of last year's first quarter?

John DeSimone: Yes, so I think the first part of your question ties very much into what I answered earlier on in the call, which is what changed in the U.S. and there's a couple of things that changed. Some of it is the time since the structural changes you made and people have adapted both from a transaction standpoint but also emotionally around that.

But further, we changed the codification qualification the U.S. that provided you the made documentation on your sales to third parties and distributors, you can actually qualify at with the less volume than you could've in the past and I think that's just all helped to reignite the market in the U.S. and that's tied to preferred numbers.

And then on your second part, I don't have the stats as to what the renewal rates are I don't have that in front of me for the new preferred members in the U.S. I'm sorry.

Beth Kite: I can follow up on that with Eric maybe. The gross margin discussion in terms of puts and takes to the first quarter were really helpful. How much of that in terms of sort of the drag do you expect might persist here in the second quarter? Or sort of I guess said a different way how do you think sort of 2Q and 3Q and 4Q will shake out from expansion or contraction mode for gross margin?

John DeSimone: Well, we certainly expect an expansion of gross margin in Q2, not all the way to what we would consider normal under the current FX rates because again we talked about inventory reduction last year and Qs 3 and 4 and how that's 5 to 6 months rollout before it hits the P&L, which is one of the reasons why FX could have a benefit to sales in one quarter and a detriment to gross profit because the cost of sales are lagging in prior 6 months.

And so by the time to get into May you're almost at normal so maybe half the quarter will be in a more normalized gross margin rate. So I think you're good to see meaningful growth in gross margin sequentially, still might be at the bit with the last year. and then anything and Qs 3 and 4 you'll see growth versus last year.

Beth Kite: Perfect and then two countries that maybe talk about as much being India and Indonesia. You had really great growth in India I see in the Q, up 26 percent. And even Indonesia and I really tough (inaudible) I would say the 9 percent looks good. Are there any particular initiatives going on different in those countries? I don't think I recall here that I'm getting your product per se the first quarter? And anything specific you could talk to for growth in those markets?

John DeSimone: So yes, India is the more complex answer because it's been two consecutive Q1s over the last two years each a very unique things going on in India. So if you go back to 2016, we had a really big price change in Q4 2015, which drove a lot of volume in our Q1. And then last year in Q1, we're implementing bifurcation, which was a new regulation in India. The last two first quarters, it's not good as it sounds, were artificially low so this growth rate is higher than it really is.

So I hate to say you look at the 3-year growth rate but if you did you see India 30 percent to 40 percent combined equal last four quarters over the three years. So you have to take -- it's doing great. India is doing well. It's strong but it's not 25 percent growth rate not something you should be a little more normal in after Q1, maybe a little into Q2, but other than that, nothing else unusual in India.

And Indonesia, I think Indonesia actually was tough comp but it's just single digits. It's a good market with a lot of opportunity for us. I think it's the seventh largest market. Its growth rates article actually lower than it was in Q4 sequentially. One of the things that I thought was interesting this quarter, I did mention so far is of our number markets we're in, 70 percent of them actually had sequential improvement in their volume points trends versus Q4, right?

So -- and that 7 percent actually represents 75 percent of our volume globally. And one of them markets that didn't was China with a lot of things going on there especially with the price increase last year. If you exclude that you might actually 83 percent of our volume was coming from markets that had sequential impairment over Q4 in strength. I don't mean actual volume point values but you look at growth rates decline rate in Q4 versus Q1, there was just sequential improvement.

Beth Kite: Wonderful. And if I could squeeze one more in. Just going to Tim's discussion in China and the grant money. So some of that will likely start to be deployed in the second quarter. I know it's going now from 90 to 105 or 106 in terms of total grant. Do you expect to largely deploy most of that here in '18?

Or is that sort of a couple of years endeavor at this point to the country? And also sorry and also you still as part of that still largely focused on Nutrition Club in the country? I'm all done now.

Richard Goudis: So certainly going to be multiyear, but I'd like to read like to frontload it as much as we can but the most aborted thing is to do it effectively and in conjunction with our distributor leaders in China so that they can activate around it. Some of the programs that we're doing is already launching I think in month of May.

But I think it will be a slow build and really maybe Q3 to Q4 we'll start seeing more meaningful investment but certainly caring into next year. And it won't be just Nutrition Clubs. I think that was just one of the whole list of investment opportunities that we talked about when we did the released last quarter.

Operator: And there are no more questions at this time. I would like to turn the call back over to Mr. Rich Goudis for closing remarks.

Richard Goudis: OK, thank you. This is an exciting time for our company, and we look forward to updating you again in our business in August. Thank you.

Operator: And ladies and gentlemen, this does conclude today's conference call. You may now disconnect.

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