

**HERBALIFE INTERNATIONAL OF AMERICA, INC.**

**Moderator: Eric Monroe**  
**February 22, 2018**  
**5:30 p.m. ET**

Operator: This is Conference # 3862679

Operator: Good afternoon and thank you for joining the Fourth Quarter and Full Year 2017 Earnings Conference Call for Herbalife Ltd.

On the call today is Richard Goudis, the company's CEO; Des Walsh, the company's President; John DeSimone, the company's CFO; and Eric Monroe, the Company's Director, 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 Web Site, [herbalife.com](http://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 call today. 2017 was a year of transition for our company as we implement the FTC order, and as you can see from our steadily improving performance in the third and fourth quarters, we believe we turned the corner in the second half of the year and a return to net sales growth in the fourth quarter was a validation.

Let me take a moment to share some key statistics that highlight the recovery in our largest market. The U.S. business was down 19 percent in the second quarter, the quarter when we implement of the final changes required by the FTC order. The U.S. business was down 17 percent in the third quarter, and down just 8 percent in the fourth quarter. And now, even less in January.

This is what happens when you have a business based on consumer demand and daily consumption and strong leaders who innovate and inspire their teams to persevere through transitions in their businesses.

I want to take a moment to recognize and thank our amazing distributors and our employees who support of them for all their hard work and dedication to

making sure Herbalife Nutrition is a recognized leader in the industry. And with this transition behind us, we are really excited to move forward and return to volume point growth in the U.S. in 2018.

John will review the financial results for 2017 in just a few moments, but for me, and for our distributors and employees around the road, we are already out-of-the-gate building a bigger and stronger company in 2018. So let me share with you some of our key initiatives for 2018.

I believe we are entering a period of transformation for our company, a period where we incrementally invest to leverage our robust technology platform over the next few years. We are fortunate to have a single-instance ERP platform that was upgraded to Oracle R12 in 2017, and a platform that has new capabilities, such as a segmented ordering for preferred customers and distributors, a point-of-sale software to track sales and help manage inventory and Nutrition Clubs checking tools to improve the customer experience.

All of which were deployed in the U.S. just last year. Now, with over 1 million customers seats collected in the U.S. each month, we started to invest in leveraging this smart data. And we will use it to help grow our business and create a more satisfying customer and distributor experience.

Our commitment to this digital transformation is best highlighted by the multiyear agreement resigned with Salesforce three weeks ago that expands upon our initial agreement entered into last year. We believe this platform will bring amazing CRM capabilities to our distributors and their customers.

We are currently in the early phase of what we expect will be a much larger rollout in the U.S. this year, with some international expansion toward the end of 2018. We believe this technology investment has the ability to improve our distributor productivity, efficiency and profitability, and in so doing, to transform the company. Additionally, as I said in our last earnings call, we will invest more to usher in an innovation culture.

In addition to new innovative products, we will also have keen focus on innovation that will affect every area of our business. We just completed our first global innovation challenge using crowdsourced technology, and had

more than 3,900 employees from 62 countries engaging and collaborating on ideas.

We're excited that our employees are taking ownership and driving the company's future, with participation rates that are 2 to 3x higher than industry norms.

The top ideas are wide-ranging and include suggestions like pop-up Nutrition Clubs, protein shakes for diabetics, improved events registration systems for our large events and an international exchange program for our employees. And next month, we'll use the same approach to engage our entrepreneurial distributor leadership to crowdsource their ideas around innovation.

As for innovative products, let me briefly update you on recent introductions and some plans for 2018.

Throughout the fourth quarter, we launched more than 70 products globally with some exciting launches in our top markets. For example in Russia and the Russian-speaking markets, we launched our gender-segmented multivitamin products, which are now available in 35 markets throughout EMEA.

We also introduced an immune booster, an individual stick tax, fortified with epicore, are clinically proven naturally active ingredient to support immune health. This new product, which was successfully launched in Mexico, is now in two regions, and will be rolling out and the broader EMEA region in the North America in the future.

There were also introductions of 11 exciting new products in our top 10 markets, including India where we launched our popular (inaudible) health product, (Nightworks), and in China, where we launched our first ever snack product, our Deluxe Protein Bar, vanilla almond flavor. In Brazil, we launched a new flavor of our popular energy -- NRGT in a tropical flavor.

This new product is another example of our successful strategy of offering more flavors of our best-selling products to drive additional consumption. In fact we rolled out new flavors of our most popular meal replacement shakes in

three of our top 10 markets, and they all ranked among the top product sold. They include banana caramel in Mexico, mint chocolate in Indonesia, and my favorite, dulce de leche in Russia.

Trends in the food and nutrition industry are playing right into our sweet spot, including nutrient-dense plant nutrition, with a keen focus on ingredient traceability and consumer personalization.

This definitely gives us a competitive advantage as we execute our new product strategy in 2018 and beyond. I'll provide details throughout the year as we announce new launches, but the product we plan for 2018 were present exciting and unique flavors of some of our most popular products as well as innovative new product sizes to help drive trial and increased distributor profitability.

We will also introduced new formats in boosters that meet the needs of different lifestages and day parts to further personalize nutrition and expand usage occasions of our top-selling products. And we plan to offer more products geared towards attracting and retaining well-being lifestyle consumers who were looking for clean-label products with fewer ingredients and less sugar.

Like the Pro-20 Select water mixable shake, which we recently launched in EMEA, which does not contain GMOs or artificial ingredients.

Our internal data shows these consumers are more active, productive and stay with us longer.

As you know, over the last 7 years, we've also invested more than \$300 million in formulation and quality labs and extraction facility and two manufacturing plants here in the U.S. to increase ingredient traceability, improve control over quality throughout the entire supply chain, and a growth through flexible capacity. And we've invested in people with more than 300 scientists and a new faster systemic approach to commercialization of our product ideas.

These investments in operations and exciting new products, combined with the knowledge and encouragement, supportive community, care and commitment of our incredible distributors, is our biggest competitive advantage. We call it the distributor difference, because it allows our distributors to sell results and not just product.

We are also transforming the training and education experience to ensure we have the most knowledgeable and effectiveness distributors, who are all well-equipped to support the various needs of their customers. Our increase investment led by Dr. John Agwunobi, who will recruit person and online nutrition and fitness master classes as well as the development of several dedicated fitness and nutrition portals with engaging and informational videos featuring numerous experts.

We're also launching University-style education program at our major events throughout the year, where distributors can customize their experience by selecting from among a variety of classes offered, focused on product education, business acumen and personal development, that best fits their personal needs for growing their businesses.

Looking ahead, we're creating an enhanced personalized education program that will feature even more relevant content to drive our CRM initiatives building an ecosystem of in-person and e-learning opportunities across all digital platforms. The trainable included a customized course curriculum based on level, tenure and experience, and will feature training credits recognition, even gamification and social elements, including a constant feedback loop with course ratings and comments.

With the assistance of Dr. Dr. Agwunobi, a recognized and respected former public health official, and Dr. Richard Carmona, the 17th Surgeon General of the U.S., and a member of our board, were also seeking to educate key thought leaders and influencers about the value our body bring to the world, ensuring we are a key part of the conversation and about the future of nutrition.

As part of this effort, we'll have a significant presence at the world-renowned South by Southwest event in Austin, Texas, which will be attended by some 350,000 people, and feature an extensive lineup of panel discussions, thought leadership keynote presentations and brand experiences. In addition to creating a premier Herbalife Nutrition experience, we're excited to learn that a panel discussion, proposed by us, has been accepted as part of this prestigious program.

This panel featuring Herbalife Nutrition experts, will focus on global food security strategies, including the production of nutrient-dense foods, sustainable food supply chains, and a necessary collaboration among government, corporations and local communities to ensure the world's growing population has access to good nutrition.

Speaking of collaboration with governments, we previously received approximately \$90 million in grants over the past few years by governments in China as part of an economic development package for our proven contribution and commitment to the continuing growth and success of the Chinese economy.

We recently announced our commitment to use these funds for our first China growth and impact investment fund to invest in the continued long-term development of our business and help address challenging public policy issues, such as the increasing rates of obesity in that country.

This China growth and impact investment fund will focus on five key areas: new acquisitions and health and wellness products and companies; expansion of Nutrition Clubs; increasing and improving technology, providing additional research, learning and training in the areas of nutrition; and public-private partnerships, focused on eradicating obesity.

We are all excited about this opportunity in China. Our strategies to leverage technology, building a culture of innovation, including accelerating launch of new products, along with strengthening our distributor difference on education and training, are all coming together in new and exciting ways to drive our transformation in 2018 and beyond.

Combined with industry trends and global megatrends, these will be some of the key catalysts for our future growth.

Looking forward to our future growth, and with a year of transition now behind us, Des Walsh, our President, recently approached me about his desire to slow down a bit and spend more time with his family, yet, still be involved with our strategic planning and play an influential role with our distributor leaders around the world.

It's for this goal in mind that earlier today, we announced that Des Walsh will assume a new position of executive Vice Chairman in May, focusing his time and talent to ensure our disputer voice is intimately represented in our growth plans.

In conjunction with this move, Dr. John Agwunobi will be promoted to co-president and Chief Health and Nutrition Officer, focusing on education and training content as well as corporate sales, marketing and events. And John DeSimone will be promoted to co-President and Chief Strategic Officer, retaining responsibility for strategic planning and Investor Relations, while assuming reporting responsibilities for the regional managing directors.

His keen focus will be overseeing growth strategies and investments and driving performance across all of our regions. And lastly, it's my pleasure to announce that our current Chief Accounting Officer, Bosco Chiu, a 25-year Herbalife Nutrition employee, will be promoted to CFO, where he will assume the additional responsibilities for tax and treasury.

With all these exciting plans underway, I believe there's never been a better time to join Herbalife Nutrition and the opportunity for our distributors has never been greater.

I'll now turn the call over to John to discuss our fourth quarter financial performance.

John DeSimone: Thank you, Rich. Today I will start by discussing the company's fourth quarter and full year 2017 reported and adjusted results, which will include key market highlights. I will then review our first quarter and full year 2018



guidance and then conclude by providing a brief update on our share repurchase program.

Net sales of \$1.1 billion represented an increase of 4.6 percent on a reported basis, and an increase of 3.4 percent on a constant-currency basis compared to the fourth quarter of 2016. Full year 2017 worldwide net sales of \$4.4 billion represented a decline of 1.4 percent, and 1.1 percent on a reported and constant-currency basis respectively.

Volume point for the fourth quarter of 2017 were 1.3 billion, which represented a decrease of 1.8 percent compared to the fourth quarter 2016, and was in line with our expectations. The 1.8 percent decline in volume points is a sequential improvement over the 5.6 percent decline last quarter and the 8.1 percent decline experienced in Q2.

For the full year, worldwide volume points decline 3.6 percent to 5.4 billion compared to 2016. Both the EMEA and China regions experienced record volume point performances for the full year 2017. With respect to earnings, as a result of the Tax Cuts and Jobs Act, or the U.S. Tax Act, that was signed into law in December 22, 2017, the company recorded a provisional one-time noncash charge of \$153.3 million during the fourth quarter of 2017.

This charge predominantly consists of foreign tax credits that the company will likely not be able to be realized under the new tax law. Due to this noncash charge during the fourth quarter, we reported a net loss of \$63.4 million or \$0.87 per diluted share compared to a reported net income of \$99.4 million or \$1.16 per diluted share for the fourth quarter 2016.

However, for the fourth quarter, adjusted earnings per adjusted diluted share were \$1.29 compared to \$1 per share for the fourth quarter of 2016.

Our Q4 adjusted EPS meaningfully exceeded the high end of our guidance of \$0.84 to \$1.04. With volume in line with expectations, that EPS beat was driven primarily by expense management and underspend, plus a lower adjusted effective tax rate.

The lower rate was primarily a result of discrete items in the quarter as well as excess tax benefits from the exercise of equity grants. The adjusted EPS figures continue to be 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 fourth quarter 2017 earnings press release for additional details on these adjustments.

I'll now describe the performance in the quarter in a little more detail. Currency had a slight benefit on our results in the fourth quarter, but represented a modest headwind on a full year basis. Fourth quarter 2017 reported and adjusted net income and EPS benefited by \$2.3 million or \$0.03 per diluted share to the impact of currency fluctuations.

Reported gross margins for the fourth quarter of 80.8 percent decreased by approximately 40 basis points compared to the prior-year period. This decrease was driven primarily by the negative impact of foreign currency fluctuations, partially offset by favorable impact of pricing changes.

Fourth quarter 2017 reported and adjusted SG&A as a percentage of net sales was 39.5 percent and 39 percent, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 29.6 percent, approximately 150 basis points lower than the fourth quarter 2016, primarily driven by the timing of promotion and events cost and other cost controls. As a reminder we previously communicated that a major distributor event occurred in the third quarter this year as opposed to the fourth quarter in 2016.

Our fourth quarter reported effective tax rate was 157.9 percent, primarily driven by the tax credits we would likely not be able to utilize as a result of the U.S. Tax Act. Our adjusted effective tax rate was 17.5 percent, which was lower than our expectations, primarily due to the impact of discrete benefits and excess tax benefits from the exercise of equity grants generated during the quarter.

Excluding the impact of these equity grant exercises, our adjusted tax rate would have been approximately 400 basis points higher. Turning to the full year, 2017 reported net income was \$213.9 million, or \$2.58 per diluted share

compared to reported net income of \$260 million or \$3.02 per diluted share for the full year 2016.

2017 adjusted diluted EPS was \$4.86 per diluted share, and was a slight increase compared to the \$4.85 per diluted share for full year 2016. Full year 2017 reported an adjusted net income where each negatively impacted by \$18.7 million from currency fluctuation. And reported and adjusted diluted EPS for each negatively impact by \$0.23 due to the impact of foreign currency fluctuations.

Shifting now to our regional market highlights. This is the second quarter in a row where trends in the year-over-year comparison improved in 5 or 6 regions. In the U.S., as our volume points were in line with our expectations and we continue to see the market pivot as we have briefly discussed.

The volume decline of 8 percent in the fourth quarter reflects a dramatic improvement compared to the Q3 decline of 17 percent, and we expect to see significant trend improvement once we annualize the implementation of the changes made in May of 2017.

Turning to Mexico, as discussed during our last earnings call, the September earthquake in Mexico had a meaningful impact to results in October, which were down 13 percent compared to the prior October. However, we experienced a good recovery in November and December, which resulted in volume points being down only 8 percent in the fourth quarter versus 9 percent in Q3.

In China, Q4 volume points increased 10 percent, or return to growth following two quarters of volume point decline. Let me also spend a minute on the recently announced \$90 million China growth and impact investment fund. This fund represents incremental investments for the China business and is equal in size to the China grant monies the company has already received and called out in our prior earnings calls and public filings.

Going forward, we will try and identify the spending for investors, so that they could track it and carve it out as necessary, similar to the how the offsetting grant amount has been carved out in the past.

For the latest 12-month requalification period ending January 2018, our worldwide sales retention was 59.7 percent on an apples-to-apples basis with last year. This is slightly lower than our retention rate of 60.9 percent last year, but a strong result nonetheless given the transition that took place in 2017.

Additionally, the latest retention results represents the largest absolute number of sales that we have just requalified in the company's history. Let me also add that we are testing some low retention qualification levels in certain markets. The retention due to lower qualifications tests are excluded from the above results.

If we included the test results, the retention is 63.6 percent. Moving ahead to guidance. For the full year 2018, much of our guidance remains unchanged from the guidance provided last quarter. However, we have increased our effective tax rate slightly due to the new U.S. Tax Act, and we have included an additional \$200 million in share buyback. I will discuss the buyback in more details in a few moments.

Our guidance does not include any excess tax benefit from equity exercises, which contributed approximately \$0.37 to adjusted EPS in 2017. For the first quarter 2018, we estimate net sales to be within a range of down 1 percent to up 3 percent, which includes approximately 350 basis points of currency benefit.

Net sales growth is reflective of an expected volume point change in a range of down 7 percent to down 3 percent. The first quarter results are hampered by difficult comparison period that includes the North American business operating at a higher rate prior to the implantation of business changes in May of last year as well as the timing benefit of volume in China, which was a pull forward from Q2 to Q1 in 2017 due to a price increase implemented at the beginning of April 2017.

First quarter reported diluted EPS is estimated to be in the range of \$0.70 to \$0.90, and adjusted diluted EPS guidance to be in a range of \$0.90 to \$1.10.

Capital expenditures for the first quarter are expected to be within a range of \$30 million to \$40 million.

And the first quarter effective tax rate guidance is 30 percent to 35 percent on a reported basis, and 27 percent to 32 percent on an adjusted basis. This includes the estimated impact of the U.S. Tax Act on our 2018 rate. Lastly, I'd like to make a few comments in regards to the cash, debt and our share repurchase activity.

Since the inception of a company's share buyback program 10-plus years ago, the company has repurchased approximately \$4 billion in stock, buying over 91 million shares adjusted for splits.

We believe the buyback program has been utilized effectively in creating value for our long-term shareholders. During 2017, through our last earnings call in November 2, the company has repurchased \$757 million in stock. Some discretionary in the open market, some through 10b5 programs, and some through a tender offer that was completed in October.

As of the last earnings call, the company had \$743 million remaining on its current share authorization program. Following that last earnings call, the company put in place a 10b5 plan that was designed to buy back stock from late December through the end of the third week of February. However, stock-price were up about the parameters of our 10b5 plan, and we didn't buyback as much stock as we had previously expected.

Fortunately today, we have approximately \$1.3 billion in cash, and slightly more than \$700 million remaining in our current authorization program.

And as our actions have shown in the past, the management and the board view share repurchase as an effective means of creating increment a long-term shareholder value, and we expect to continue to repurchase our stock. As I stated a few moments ago, we have assumed \$200 million in repurchases in our guidance, a practice we routinely did for guidance a few years ago.

We certainly may choose to buy back more than this during the year, but we added the \$200 million to guidance to demonstrate our continued commitment to the program.

With respect to debt, we have \$2.3 billion in total debt and \$1 billion in net debt. While no guarantee on our own execution, we expect to work on restructuring our debt this year on a more effective terms and an enhanced maturity profile.

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

Operator: As a reminder to all participants over the phone lines, if you would like to ask an audio question you may do so by pressing “star” then the number “one” on your telephone keypad. Our first question is from the line of Douglas Lane from Lane Research.

Douglas Lane: Yes, hi everybody. John, just following up on your stock repurchase comments. Was there a reason why you weren't more aggressive in buying between third quarter earnings call and the end-of-the-year?

John DeSimone: Well, as a portion of time in there, where there's a waiting period after we put the 10b5 in. So our primary objective was to be in the market consistently through the closed period, because this was an extra-long close window, right?

The year-end window is closed almost twice as long as a normal window, and since it do that, we felt the best way was to do a 10b5, again, in hindsight, you could say that we have stock ramp, we didn't execute as much as we wanted, we should have taken a different approach, but the objective was to spread it out during the close window, and it just didn't work out as planned.

And so we've rolled that commitment into our forecast, so that people is still confident that we intend to buy back stock, and we expect the \$200 million to be our minimum.

Douglas Lane: Great. And do you still have, what? Seven hundred million dollars remaining right?

John DeSimone: The \$700 million remaining was the \$1.3 billion in cash. We do have debt due beginning next August '19, so 1.5 year away. And so we're going to work on - - everything kind of works in conjunction. We generate a lot of cash, we've got some debt that we would like to refinance for both better terms and different maturity profile, right now our maturity profile is tied to two key dates, it's next August, and the maturity of the Term Loan B.

So they're staggered out a little. So we will be working on that simultaneously while we consider the different options to buy back stock.

Douglas Lane: Okay, fair enough. Now moving on. I know you didn't get to put a currency comment in your 2018 outlook. I think, last time, in the third quarter, you were looking for a positive 1.2 percent to sales and a positive \$0.10 to EPS. Just directionally, is that about where we are today? Or is it a little bit more favorable than that? Just, I guess, you can't give me an exact number, so I don't know how...

John DeSimone: Well, so the guidance ranges don't change much any longer, so we added constant currency when there was huge volatility, and we'll add it again should it be relevant to actually \$0.13 of benefit next year, so not materially different than it was in the previous guidance. So it's been, for simplification reasons, removed. But we'll still give it on the call.

Douglas Lane: Well, now that's a good thing not to talk about it every quarter, I understand that. And then, can you talk -- I mean, based on my original forecast, I think, the biggest upside was in China. Can you just drill down a little bit more on how China is progressing? What did you see -- were there an upside to your expectations as well? And what were the key drivers behind the good performance out of China?

John DeSimone: Yes, China's a good market for us, obviously. It's an interesting year. We had a lot of management changes that was some governmental noise around the industry that ended during the fourth quarter, and we've also implemented

some changes in COC, total number of new service providers, that's the increase. I kind of put it in two buckets.

I think this is -- might be the best way to look at China. So we launched the growth fund. That growth fund is tied -- what is tangible, but it's tied to the grants that we've got from the government. Part of the agreement with the government is that money gets invested in China, and it has created a challenge, I think, for us to be able to provide investors enough information to match the two.

So this is the best way to match the two, and also gave our distributors in China the confidence on where the money is going to be spent. So that's one bucket. Another bucket, as you know, in China, we've got direct sellers, and we have nondirect sellers, right? So these buyers are outside of direct selling. And we also have direct-selling products and nondirect-selling products.

So one of the changes we've made in December was we offered a pathway for direct sellers to move into service providers more easily, and that gives them better access to the nondirect-selling product, which the direct sellers don't have as much access to. So that helped people become a service provider more quickly.

And the reason when we just announced a promotion, it will be 5-month test promotion, which is to try and drive more economic opportunity to newer SPs, SPs make money through the economic models billing on hours. We try to equate those hours to approximately with somebody would make it they were in another country.

What we've added, in conjunction with our strategy around training and education, is we have promotion to allow SP to become eligible for paid training as a way to earn more a little earlier in their journey in conjunction with this strategy to have more educated and trained distributors everywhere. And so it's a great, very exciting times in China for that reason.

Always a lot of local competition in China, so I think it's great that we continue to strengthen our business. But we're excited about it. Again, Q1 is going to be tough comp, so let's keep our expirations in line. Q1 last year had



the price increase that we announced in the second week of March. That was effective April 1, and we had 40 million to 45 million volume points pull forward into the first quarter that will not get repeated this year. So it's really a second quarter story going forward is in China.

Operator: And our next question is from the line of Tim Ramey from Pivotal Research.

Timothy Ramey: A couple of questions on the tax rate. I think I am understanding that you've essentially got a situation where you need to shift cost perhaps to non-U.S. markets, particularly China, to get more benefit from the new tax rate. First, would you kind of consume that -- or confirm that, that that's a strategy and something you will be working on? And any thoughts on how that might look as the year plays out?

John DeSimone: So you're right -- and part of your answer is right. I think thematically, it's correct, in that we had a structure designed for 1 tax code and other tax code changed, we're not getting the foreign tax credit, or at least the benefit of the foreign tax credits that we would've had under the old law. What I would disagree with you is when you say China.

I think overall, holistically, we had to do some tax planning. There is a lot of work to be done on that side. I think there's opportunity. The opportunity is really going to be a our 2019-plus event, because it's going to take time to execute whatever strategy we need to execute in order to maximize the opportunity for us. But for the most thematically, you're right.

Timothy Ramey: Okay. And as we think about volume points going forward, the big picture is pretty positive. First quarter is slow start. Can you put anymore geographic color around it? Do you expect any Mexico will have an easy second half comp, I presume that will be a source of strength? Any other things you would call out that looked interesting from a company mix perspective?

John DeSimone: No. Interestingly, we're seeing pretty broad positive trends. I think maybe the biggest challenge might be South America, but even though it's starting to improve. So I wouldn't call out any specific. I think we're looking for sequential improvement at the back half of the year versus the front half of the year in 2018 in virtually every region.

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

Michael Swartz: I guess John, just wanted to dig into the updated guidance. You didn't change anything really with growth for the full year. And I'm just wondering some of the moving parts within there. It looks like tax rates are a little worse, obviously you're embedding some share buybacks, a little bit of currency.

So the way that I'm looking at it, it looks like about \$0.10, \$0.20 maybe delta versus prior guidance just operationally. Can you kind of walk through what that is? Were there's some cost that slipped out of the fourth quarter into 2018?

John DeSimone: So let me just interrupt. It's almost exclusively tax rate offset by the buyback. So operationally, the numbers don't change at all. I mean, okay, I think currency went from a \$0.10 benefit to a \$0.13 benefit, which is immaterial. Other than that, we hit our Q4 volume guidance almost in the middle of guidance.

We haven't changed anything to it in 2018, although we're excited about the trends, and therefore, that doesn't change the profile of P&L at all, other than the implantation of a U.S. Tax Act that rolled into the model.

Michael Swartz: Okay. And then just on the IT systems investments you're making, I think you got out Salesforce, Oracle. Could you talk about, I guess, that process? And I think before you said there was about \$10 million-or-so incremental spend in 2018, is that still the plan?

John DeSimone: Yes. The numbers haven't changed, correct.

Operator: Our next question is from the line of Beth Kite from Citi.

Beth Kite: I was wondering if you can actually go back to the South and Central America region. The 17 percent local currency sales growth in the fourth quarter was just so strong. Can you help us to understand which countries drove that?

John DeSimone: Yes. Look, it's -- I think with South America you're maybe focus on volume points, because we've got the Venezuelan situation, even though we don't a lot

of volume in Venezuela, the currency has moved so much that it really skews the constant currency number in that region.

I don't know what it's up to now, maybe it's up to 25,000 to 100,000, most of the year or 2000 or something. So it's not a perfect look, because along with the evaluation, we have price increases. And so the price increases we wouldn't happen without that the devaluation. So if you take Venezuela out of the situation, the 17 percent drops to 1.5 percent, which is much more in line with probably what you're expecting.

Beth Kite: Got it, got it. And than that synchs a little bit more to average sales leaders numbers? Okay, great. Great. Okay. And then for the U.S., just in light of three quarters now effectively with the new terms of the consent order, can you dig in a little bit more for us in terms of personal consumption?

As I think it's been a pressure point earlier on and how are you tracking towards getting up to that \$200 monthly spend for personal consumption? And then also because numbers are such an impotent component, can help us understand sort of the purchase habits have been? Because I think that my taiga some recalibration you have coming up in May for personal consumption?

John DeSimone: Well on the internal personal consumption of the distributors, we're still on education path. Even as recently as January, there was a misunderstanding as to how it actually works. I think there is probably one area where there is opportunity and it's I think it's going to get better. But we didn't see much movement in the during the back half of last year that we had hoped so to me that, for me anyways, is upside.

But again, I do think there's opportunity on there, it's mostly from education and probably doesn't require a lot of anything else. As far as purchasing habits of preferred members, Rich talked about some of the things that we're seeing on voucher products people about how that turns into retention and productivity and what we're seeing is the wellness consumer sticks with us longer, buys more, more active.

They buy more frequently. They buy a larger amount and they stick with us longer. And so we're in the infant stage of learning how to use that data, and that's the goal of Salesforce is to bring in some intelligence or automated intelligence to help us do that. So we didn't have to re-create it. But we also have to learn a lot about our consumers through that process.

Beth Kite: Got it. And then can you remind me, I apologize, if I should know this, but you had a big number of new preferred members, for instance, that came in last first quarter of '17, this 63,000. Do those folks -- do they re-up now here in first quarter of '18, and kind of does that happen in each quarter of the year on a year-ago basis for the new preferred members of the come in? Or can you just remind me of that process?

Desmond Walsh: Yet so this is Des. So for the group that actually transitioned over, so as you know, we bifurcated our distributor base and we gave people the option to elect to become preferred members. So for those people who elected to transfer over who were distributors, effectively, we grant because those are ongoing status.

Some of that they make a minimum number of purchases during the year. So for that there isn't a re-qualification they will remain as preferred number similar based on an annual protest. For our new preferred members, people who joined after January onto the new program, they have the same annual renewal requirement as anyone else and so that something that will happen each year and we'll continue to monitor it them each year thereafter.

Beth Kite: Okay. And one more kind of country-based question. For China, I know you spoke to it a bit with Doug's question. But did you say how the Nutrition Club count is tracking? Are you at a point now where you're going Nutrition Clubs now in the country?

Richard Goudis: I believe it's about flat, it's been flat now for a couple of quarters, which is an improvement over the turn that we saw in the prior quarters. I do think that our growth will help with that, so we'll see a for the next couple of quarters and hopefully we will see some improvement.

Beth Kite: Okay, perfect. And then 2 last questions, if I may quickly. One for the guidance. Is there any embedded expectations for price increases kind of anything major like you did in China last April that's currently in the guidance that we have for this year?

John DeSimone: So we have pricing -- nothing -- first of all, generally, we take price increase we don't get the material impact like we had in China. And we do price increases frequently in different markets. So we'll get some pull forward, but not to the extent on first of the whole months that we pulled forward that we had in China.

But yes, we have price increases embedded in the different markets at different rates, but do I think it's anything material? I don't think there's anything material.

Beth Kite: Okay, and then John, could you help us, I know last time, you talked about gross margins kind of a little bit of visibility into 2018, but especially helping us to understand, it was probably going to have some pressure here in the first quarter just because of some FX -- the lack of FX benefits, this or nothing else.

Can we just talk is a little bit through again the gross margin progression that you're expecting in 2018?

John DeSimone: Well I think the biggest impact early in the year is lower production. So we had an inventory reduction program that we put in place. And I'll give you some numbers around that. Think about 5- to 6-month lag on inventory production that's hitting the P&L.

So you really get a look at the last 6 months of 2016 to understand what happened at the beginning of '17, and then look at the last 6 months of 2017, to see what happens in 2018. And so if you can follow me if you look at our statement of cash flow through the back half of the year of 2016, we built -- and I think the statement of cash flow is dependent on currency.

We built around \$70 million of inventory in the back half of '16, which -- whatever sales, stock forecast that's when we started a miss, you overbuild. In

the back half of this -- in 2017 we actually reduced inventory by \$30 million. That's \$100 million of lower production. You take (inaudible), that goes in the balance sheet it rolls out and the subsequent 5 to 6 months.

So that lower -- from a comparison standpoint, that lower production in the back half of '17 compared to the back half of '16 will impact Q1 by \$0.10. It's also in gross margin line. It will continue into Q2 and then you'll see an improvement in margins in the third and fourth quarter from production. So that's what I tried to talk about last time.

I didn't have the full production numbers because we haven't been through the year yet, but now are through the year, I have those numbers. So what you'll see is a higher cost of sales and lower gross margin in beginning of the year, improving as you go through the year.

Operator: Once again, that's "star" "one" to ask an audio question. And...

Desmond Walsh: I don't think there are any more questions, so I'm going to pass it over to Rich for some closing remarks.

Richard Goudis: Okay, great. Thanks, John. And thanks, for everybody for listening. I'll just list the five key points, I guess, to close: number one, I think you can see in our performance and our guidance that we've turned the corner in 2017; number two, hopefully you can hear in our commentary today and in the Q&A, we have tremendous confidence in our business and our growth strategies.

Point number three, hopefully, you understand as well we have amazing distributor engagement and that's highlighted by, I think, some of the feeling that we have now coming out of some of the key leadership meetings earlier in the year, and you know we pre-announced our volume to help engage those -- our distributor leaders and really hit the ground running really hard in 2018.

Point number four, I think, from a performance and fundamental perspective, this is the year that investors really get rewarded for being a long-term investors in Herbalife; and then lastly, number five, hopefully you can tell by the tone here, we're just really excited about this transmission that we see

underlaid this digital transformation, which is just really exciting. And we look forward to speaking to you in May. Have a great day, everybody.

Operator: Ladies and gentlemen, this does conclude the conference call. Thank you greatly for your participation. You may now disconnect.

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