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HERBALIFE INTERNATIONAL OF AMERICA, INC.

**Moderator: Alan Quan
August 5, 2015
2:30 p.m. PT**

Operator: This is conference # 74088923.

Good afternoon. Thank you for joining the second-quarter 2015 earnings conference call for Herbalife Limited. On the call today is Michael Johnson, the Company's Chairman and CEO; the Company's President, Des Walsh; John DeSimone, the Company's 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 risk and uncertainty. 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, including our annual reports on Form 10-K and quarterly reports on Form 10-Q for a complete discussion of risks associated with these forward-looking statements in our business.

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 and preparing period to period results of operations in a more meaningful and consistent manner.

These non-GAAP financial measures should be considered in addition to and not as a substitute for or superior to the financial measures prepared in accordance with GAAP. Please refer to the Investor Relations section of our Web site Herbalife.com to find our press release for this quarter, which contains a reconciliation of these measures. Additionally, when management makes reference to volume during this conference call, they are referring to volume points. I'll now turn the call over to our Chairman and CEO, Michael Johnson.

Michael Johnson: Thank you, Alan. Good afternoon and good evening, everyone. The important trends we saw at the beginning of the year continued into the second quarter of 2015. I am pleased to say that we exceeded expectations. Importantly, three out of four key markets most impacted by our marketing plan changes, the U.S., Mexico and Brazil have continued to show expected improvement in sales performance and in key member metrics, such as activity levels of sales leaders and the percentage of new sales leaders qualifying through the more deliberate and more sustainable and ultimately more productive 4K cumulative method.

For the quarter, we reported net sales of \$1.2 billion. While this represented a decline of 11 percent from the prior-year period, largely due to the unfavorable impact of currency fluctuations, we achieved net sales growth of 1 percent on a local currency basis, which was close to the high end of our

guidance range. It is important to note that April and May of 2014 represented the highest volume point month in the Company's 35-year history; and therefore, created our most difficult comparisons of the year.

In terms of profitability, second-quarter adjusted EPS was \$1.24 per diluted share, which exceeded the high end of our guidance of \$1.15, primarily as a result of our ongoing focus on making prudent investments to drive growth while controlling discretionary spending. Most importantly, the financial results from the first two quarters combined with our expectations for the remainder of the year allowed us to raise our adjusted diluted EPS guidance for the year to the range of \$4.50 to \$4.70 from the previous range of \$4.30 to \$4.60.

Our new guidance reflects our outlook for the near-term performance of the business related to the strategic decisions we have made to improve the business for the long term. The improving trends in both our financials and member metrics reflected tremendous leadership of our senior sales leaders, together with the resilience of all of our members and employees and their passion and determination to make Herbalife the best nutrition Company in the world.

As designed, our recent changes to the marketing plan are creating a more consumer-focused and sustainable business. As we have communicated in the past several quarters, we anticipate that these important and effective changes will enable us to return to sustainable volume point growth later this year. One reason for our optimism is that our members are excited and engaged like never before.

In July, our extravaganza in St Louis had approximately 22,000 members, the largest attendance for a combined extravaganza in North American region in the Company's history. In May and June, we had over 26,000 members attend extravaganzas in India and Thailand. Also in May, we held two extravaganzas in Brazil with over 18,500 participating, a 20 percent increase over last year. We are excited as we look forward to our EMEA extravaganza, which is on track to be a sell out at over 17,000 members.

Our Russian extravaganzas, with anticipated attendee numbers set to be up more than 40 percent on last year. Regular attendance at these important events is a key indicator of member engagement as well as a validation that our members have embraced our marketing plan enhancements. Members are coming to these extravaganzas to be inspired and motivated and to learn how to further increase their focus on daily consumption and build their businesses in a sustainable way.

The result is higher sales leader and member activity rates and a stronger foundation for long-term sustainable and profitable growth for our members and for our Company. On a worldwide basis, during the second quarter, excluding China, the percentage of sales leaders qualifying through the new 4K cumulative method was 78 percent. That is compared to just 38 percent in the same period last year.

We know, based upon experience and analysis of our data, that when a member comes into the business in a more methodical and gradual manner, it typically results in greater retention and activity levels. Those that come through the 4K cumulative method are approximately 62 percent more likely than the one and month qualifiers to be retained during the first re-qualification period. 63 percent more likely to be active 12 months after qualification than the one and two month qualifiers.

Other positive indicators in the second quarter included the percentage of active sales leaders, which was 65 percent worldwide excluding China. Compared to 62 percent for the same period in 2014. While worldwide new members, excluding China, decreased in the quarter and the total number of new members who were actively ordering increased compared to the same period last year. Another reason we're excited about our future is that we remained well-positioned to address the global mega-trend of rising obesity.

We continue to strengthen and drive innovation in our product portfolio to ensure that it is in line with customer needs, expectations and trends and meets the healthy lifestyle demands of today's consumers. Offering consumers greater choices always has been an important part of Herbalife. We continually look forward so that we can anticipate and meet changing

consumer preferences. For example, there are some customers who want products made with non-GM ingredients and some countries that require it. So we now offer our members that choice.

We introduced gluten-free shakes at the end of 2010, as more people move to either eliminate or reduce the amount of gluten in their diets. In Asia-Pacific there was a growing consumer focus on low glycemic products. We are examining the best way to develop products and educational material to address consumer needs for this region. Additionally, our entire green tea line and flavored aloe concentrate products are a great choice for those customers who prefer products that do not use artificial flavors or colors.

All of these examples point to one important principle, we are focusing on providing consumers with a choice so they can make the best decision for themselves and for their families. In addition to meeting changing consumer preferences, we're also offering more choices for our top three products, our Formula 1 Shake, our Tea and our Aloe.

New flavors and localized flavor profiles create excitement for our members and stimulate sales among existing and new customers. For example, the introduction of Formula 1 pacoca in Brazil, a flavor based on a popular peanut candy, has quickly become the top-selling flavor in the market. The launch of both a banana carmel Formula 1 Shake and chai flavored tea in the U.S. are also very popular with members and their customers.

As we highlighted last quarter, in an effort to expand the number of daytime occasions when consumers choose to have a meal replacement, we are developing savory products such as the recently launched borscht flavored shake in China. These savory products, in addition to shakes that we are developing to be consumed hot or shakes that are designed specifically for other mealtimes, will provide additional consumption occasions for our members and customers. We expect that these efforts will lead to incremental sales and further strengthen our position of leadership in this important product category.

In addition to extending our existing portfolio of products, we are also focused on innovating and creating brand new products that we believe will create sales and excitement for our members. This quarter, we will begin to roll out a new and exciting co-branded sports nutrition product that was developed by our science teams with key input from global soccer superstar and three-time Ballon d'Or winner, Cristiano Ronaldo. It's called CR7Drive. It will be part of our Herbalife24 sports line. Cristiano and many of our sponsored athletes have been testing the product for the past several months and the feedback has been very positive.

I personally got the chance to use the product in the competitive environment when I participated in the TOUR Transalp cycling event last month. This is the third time I've taken part in this challenging road race covering 886 kilometers over 7 days. I can tell you that CR7Drive was phenomenal. The taste was great and the positive impact it had on my performance, or should I say survival, in combination with our Herbalife24 products was very, very noticeable.

Our current plan is to launch CR7Drive in EMEA in September and in the U.S. in October. We believe this new product will have a positive impact on the excitement and engagement of our members and at the same time, opening up new sales opportunities for them to expand and grow their business. The initial campaign in support of CR7Drive began last month with a single post by Ronaldo on social media. Within just 24 hours, it received a total of 2.4 million engagements across Facebook, Instagram and Twitter.

Combining the authenticity of our athlete relationships with scientifically substantiated products creates a unique and competitive advantage for our Company. Our relationship with Cristiano Ronaldo is a special one built on his confidence and belief in the effectiveness of our products. This is someone, who while in Australia with his team last month, sought out a local Herbalife Nutrition Club and dropped in unannounced because he needed more Herbalife24 products.

We always tell our members, you never know who's going to walk into a Herbalife Nutrition Club, but you can imagine the surprise and excitement of

the members and their customers who were there that day. Cristiano, well, he's just one of us. He's part of Team Herbalife. He was treated and he behaved just like any other member. He took the time to chat with everyone in the club and tell them how he uses the products as part of his daily regime. There aren't many global superstars who are so personally connected to the brands and the products they work with. I have no doubt this relationship is going to help our brand and our product portfolio to improve our position in the market.

While our product strategy is driven by the nutritional needs of consumers, it is underpinned by our absolute commitment to product quality and efficacy. We continue to invest in our manufacturing, sourcing, quality and R&D teams as part of our seed to feed initiative. On July 2, North Carolina Governor, Pat McCrory, and other local officials and leaders joined us to announce our plan to create 300 new manufacturing and technology jobs by the end of 2018 at Herbalife innovation and manufacturing facility in Winston-Salem.

This is in addition to the approximately 500 jobs that will have been created at this facility by the end of this year. This expansion will bring our total investment to approximately \$140 million in Winston-Salem, creating state-of-the-art manufacturing and R&D capabilities. This will set us apart in the industry and a new data center that will improve the redundancy and capacity of our global technology platform to provide enhanced business continuity resilience.

By the end of 2015, we expect to have produced over 40 million units of product at Herbalife innovation and manufacturing in Winston-Salem, which will represent roughly 20 percent of our current global inter-nutrition sales. In 2016, we expect to produced over 60 million units, which will be over 25 percent of our inter-nutrition sales and will establish Winston-Salem as the highest volume plant worldwide.

Combined with our outstanding innovation and manufacturing facility here in Lake Forest and our multiple facilities in China, we expect to self manufacture approximately 65 percent of our inter-nutrition product by the end of 2016. This gives us tremendous traceability and quality control, which we believe is

a competitive advantage in our industry and significantly benefits our consumers.

We are also moving forward with establishing a third manufacturing facility in China. Construction in Jiangning is scheduled to begin next quarter, with a target date for initial production in the second half of 2016. We met with the Chinese authorities in June to review plans for this \$40 million investment. Our manufacturing team is currently working on finalizing the plans for construction to expand our manufacturing capacity in this important marketplace.

This ongoing investment to support future China capacity reflects our outlook for long-term sustainable growth in this key market. Volume in China during the second quarter increased 38 percent compared to the same period last year, with record high volume points made for the third consecutive month. In June, we saw a record high average active sales leaders of 24,000. For the quarter, this number was up 28 percent versus the same period last year. Average active sales leader is a metric we are focused on. These are impressive results.

Our customer loyalty program in China continues to grow. The registered preferred customers in the loyalty program who ordered direct from the Company drove almost 0.25 of China's volume for the period. We are excited about the impact of this program and what it means for the pipeline of customers and long-term sustainability of our business. Globally, we remain focused on creating opportunities to enhance our brand through relationships with organizations and events that are aligned with our commitment to improving nutrition and improving our communities.

In July, we launched one such partnership with the American Red Cross that will see us provide nearly 300,000 co-branded protein snack bars to blood donors at centers around the U.S. through 2016. This partnership is significant because it provides good nutrition to blood donors while providing us access to hundreds of thousands of potentially new customers who are new to our brand and nutrition products. This is an important relationship for us in North America, as we continue to tell our story to consumers. Our members

are excited about what this brings them in their day-to-day discussions with their customers.

Last week here in Los Angeles, we had the Special Olympics World Games. Herbalife was incredibly proud and honored to have been a part of this amazing event. As the official snack supplier to the games, we provided co-branded healthy meal replacement bars to athletes, coaches and volunteers throughout the games. These co-branded Formula 1 healthy meal replacement bars are also available for sale in nearly 50 markets around the world. As part of this relationship, our Los Angeles distribution center served as the official uniform distribution and credentialing center for more than 6,000 volunteers who supported the games.

In addition, Herbalife members also sponsored and supported teams of athletes from around the world, more than 700 from Central America, Europe and Asia-Pacific, which represented 10 percent of the total number of athletes competing, who we helped with nutrition and other aspects of their participation. The targeted advertising campaign we ran in support of our relationship, as well as the enthusiastic involvement of our members and employees, reflected our commitment to improving our communities through the support of such wonderful and positive events.

The quarter, however, was not without its challenges. In addition to the ongoing foreign exchange headwinds currently endured by all global companies, the difficult economic environment in Russia had an impact on sales. We also saw a decline in sales in Korea, as the market continues to adapt to our marketing plan changes that we discussed on our call last quarter. Finally, the ongoing issues in Venezuela had a definite impact on volumes. John will provide a bit more color on these topics in just a moment.

Even with these challenges, our second-quarter results, which exceeded expectations, reinforce our belief that the changes we implemented were the right ones and that we are on track to build upon the success in the second half of the year. So before I close, I just want to take a moment to recognize and congratulate our members and our member leaders around the world for the way they have embraced the recent marketing plan changes and incorporated

these into their business so successfully. Our members resilience, commitment and passion is remarkable.

Their focus on building sustainable businesses through an exceptional customer experience is taking our Company to the next level. We are seeing positive trends in volumes in key sales leader metrics. Our members are as energized and focused as ever. As we invest in new products and infrastructure to support their businesses and to meet the needs of their consumers. We remain confident that these trends will continue through 2015 and that we are creating a platform that will deliver longer-term value for you, our shareholders. So let me turn it over to John, who will now take you through a more detailed look at the financials.

John DeSimone: Thank you, Michael. First, I will review the Company's second-quarter 2015 reported and adjusted results, including a few market highlights. I will then give an update on guidance for the remainder of the year. For the second quarter, we reported worldwide net sales of \$1.2 billion, down 11 percent from the prior-year period, while up 1 percent on a local currency basis, as currency headwinds represented a decline of 12 percent.

Worldwide volume points were \$1.4 billion, a 4.8 percent decrease compared to last year, just slightly below the high end of our guidance by 30 basis points. It is worth repeating that April and May of 2014 represented the highest volume point months in our history, making Q2 our toughest comparison of the year. Adjusted EPS of \$1.24 per diluted share was above the high end of our guidance of \$1.15. We are raising our adjusted EPS guidance for the full year to a range of \$4.50 to \$4.70 from the previous range of \$4.30 to \$4.60.

In the second quarter, we saw volume point trends improve in three of the four key markets most impacted by our marketing plan changes; the U.S., Mexico, and Brazil. We are seeing sequential improvements in key metrics in these markets and are encouraged by the positive trends. In the U.S. during the second quarter, volume points declined 9 percent versus the prior-year period compared to a decrease of 12 percent in the first quarter.

We believe the improving trends reflect an accelerated adoption of the 4K cumulative method for new sales leader qualification, which is continuing to cycle through. During the second quarter, 80 percent of sales leaders came from the 4K cumulative method, which is nearly double the percentage of sales leaders that qualified in this way during the same period last year. Other trends are also improving as the marketing plan changes take effect. Sales leader activity rates continue to grow and reached 79 percent during Q2. The percentage of volume coming from one and two month qualifiers declined to 2 percent of total volume for the second quarter.

With respect to Mexico, it exceeded expectations in the quarter and is making promising progress as it continues to transition through our marketing plan changes. Volume points for the second quarter declined only 5 percent compared to the prior-year period, which is an improvement from the 8 percent decline in the first quarter year-over-year comparison. In June, Mexico was essentially flat with prior year. Having successfully overcome the challenges of elimination of field sales for sales leader qualifications, Mexico is now demonstrating meaningful and encouraging improvement in certain key metrics.

For the second quarter, 75 percent of sales leaders qualified through the 4K cumulative method, compared to 20 percent during the same period last year. **New members with activity increased by 14 percent during the second quarter.** *[The highlighted text should have been stated as follows: “New members with activity increased by 21.7 percent during the second quarter.”]* Another market worth noting is Brazil, which had a relatively strong second quarter. Compared to the 15 percent decline in the first quarter year-over-year comparison, volume points declined just 1 percent in the second quarter. In both June and July, Brazil experienced volume point growth compared to the prior-year period.

In addition, we saw a meaningful recovery in sales leader activity, which reached an average of 62 percent, up 16 percent over last year. 86 percent of sales leaders qualified through the 4K cumulative method, about double the percentage a year ago. New members with volume were up over 50 percent. In Korea, volume was down 30 percent, which was similar to the first quarter,

as it continues to transition and cycle through the marketing plan changes. We expect this will continue into Q3, as Korea will have a difficult prior-year comparison because of our marketing plan change that was implemented in August 2014.

The marketing plan change had the effect of a price increase, which resulted in a surge in buying in July 2014, ahead of the changes take effect. The comparisons should get a little easier later in Q3 and into Q4. Volumes in Russian declined 19 percent compared to the prior-year period, primarily due to the difficult economic conditions that are faced by everyone in this market and the timing of a 14 percent price increase in March of this year.

This price increase as well as one in June of last year compensated for much of the volume decline as the local currency net sales were down only 2 percent. While it was a difficult quarter for the market, the market seems to have adjusted to the price increase and the economic climate, as a starter performing better in July with volume points down only 3 percent. We're also encouraged that new members in Russia increased 44 percent in the quarter. That the attendance for upcoming extravaganza is expected to be approximately 40 percent higher than last year.

Moving to EMEA, we are pleased that the region overall continues to show strength. Volumes in EMEA were up 4 percent inclusive of Russian. Excluding Russia, EMEA volume grew 11 percent in the second quarter similar to its performance in the first quarter, also excluding Russia. Venezuela, which is immaterial financially, post-evaluation had a much bigger volume drop than anticipated. The continued currency devaluation and related inflation resulted in us taking significant price increases that reduced volume by 81 percent versus prior year.

Volume points in Q2 of this year were approximately \$5 million, compared to \$28 million last year. If not for this larger than anticipated drop in Venezuela volume points we would have exceeded the high end of our volume guidance range in Q2. Moving to China as Michael had mentioned, volume in the second quarter was up 38 percent over the year ago period, with record high volume points during the quarter. In June, we saw record high active average

sales leaders. For the second quarter, this number was up 28 percent versus the same period last year.

The customer loyalty program continues to be a growth driver in the market. Consumers who enrolled in the loyalty program can buy from a sales representative or directly from the Company. About 25 percent of China's Q2 volume was purchased by registered preferred customers directly through the Company. As a promotion to focus on the customer loyalty program, in July, the country only enrolled loyal customers and did not sign up any new sales representatives similar to what we did in August 2014.

Looking at some of the other financial highlights of the second quarter, as previously noted our adjusted EPS of \$1.24 per diluted share compares to \$1.55 during the same period last year. But is above the high end of our guidance of \$1.15, primarily as a result of our continued focus on cost management. Second quarter 2015 diluted EPS comparison to the prior year was negatively impacted by a \$0.41 currency fluctuation of which \$0.14 was due to Venezuela.

On a reported basis second-quarter net income was \$82.8 million or \$0.97 per diluted share compared to \$119.5 million or \$1.31 per diluted share for the same period last year. Reported EPS was also negatively impacted by currency by the \$0.41 previously noted. Our reported EPS continues to include additional items we considered outside of normal company operations and which we believe will be useful when making period to period comparisons of our results. For the second quarter, we had \$0.06 related to expenses incurred responding to challenges to the Company's business model.

\$0.04 for expenses relating to the regulatory inquiries. \$0.04 related to foreign exchange exposure on euro/U.S. dollar inter-company balances. \$0.13 related to non-cash interest expense and amortization of non-cash issuance costs. As a percentage of net sales, our reported gross profit margins remained essentially unchanged versus a year ago at 80.3 percent. For the quarter, the favorable impact of retail price increases was 94 basis points. Cost savings through sourcing optimization and self manufacturing was 30 basis points. Country mix was 38 basis points.

These were partially offset by the unfavorable impact of inventory write-downs of 94 basis points and foreign currency fluctuations of 80 basis points. SG&A, excluding non-GAAP items, was 39 percent of net sales, an increase of 450 basis points compared to Q2 2014. Approximately 80 percent of the increase or 370 basis points was due to an increase in China member payments as a result of the continued strong growth in that market.

Excluding non-GAAP items and excluding China member payments, SG&A increased by approximately 80 basis points versus last year. Currency fluctuations had a negative impact of approximately 180 basis points, partially offset by the timing of member events and general expense controls. Our second quarter adjusted effective tax rate was within our expecting guidance range. But approximately 70 basis points higher than the rate in the previous year due to changes in the full-year expected country mix of earnings and lower net benefits from discrete items.

Cash flow from operations for the second quarter was \$197.6 million or 26 percent compared to the prior-year period. At the end of the second quarter, we had approximately \$749.6 million in cash of which 51 percent or approximately \$380 million was held in the U.S., while the current portion of our debt is only approximately \$294 million. Now turning to guidance. For volume in the third quarter, we expect to see between a 1 percent and 4 percent decline in volume points compared to the third quarter 2014.

We believe we will continue to see the improving trends from the second quarter in many of our key markets during the second half of the year. But this will be partially offset by the new imposition of a value added tax in Mexico, that will impact approximately half of our product sales in that market. This expected impact is included in our current guidance.

Net sales in our guidance continues to reflect the impact of currency. We expect to see between 7 percent and 10 percent declines in net sales compared to the same period in 2014. For all guidance currency assumptions, except Venezuela, we have used the average closing exchange rate during the first weeks of July consistent with our prior practices. Guidance for the third-

quarter adjusted diluted EPS is in the range of \$1.00 to \$1.10, which includes an unfavorable currency impact of approximately \$0.40 per diluted share inclusive of approximately \$0.13 from Venezuela.

We are raising our adjusted EPS guidance for the full year, which is now in the range of \$4.50 to \$4.70, which includes a currency headwind of approximately \$1.40 per diluted share, inclusive of approximately \$0.45 from Venezuela. The new guidance range represents an increase of \$0.20 to the low end and \$0.10 to the high end of our previous guidance. Our adjusted EPS guidance includes approximately \$0.10 of additional negative currency impact compared to assumptions used last quarter, which were offset by expense controls in the (beaten) Q2.

Our effective tax rate guidance is 28.5 percent to 30.5 percent for the third quarter and 28 percent to 30 percent for the full year, unchanged from the guidance provided a quarter ago. Our capital expenditure guidance for the year has been reduced to between \$110 million and \$130 million, down \$10 million on the low and high ends compared to our previous guidance.

Lastly, we are raising our free cash flow guidance for the year, defined as cash from operations less capital expenditures. The bottom of the range has increased by \$30 million and the high end of the range has increased by \$20 million. The new guidance range is \$470 million to \$490 million. I will now turn the call over to Michael for some additional remarks before we take questions.

Michael Johnson: Thanks, John. This has been a solid quarter that is built on the positive trends we saw at the start of the year. We're seeing an improvement in key markets that have been most impacted by the changes we implemented with the support of our member leaders. Our member base around the world is engaged and enthusiastic about the future, as we are.

Furthermore, we have a relentless focus on our consumers and remain committed to ensuring that our members and their customers old and new are getting the products they want in the way they want them. Our brand, it just keeps getting stronger every single day. Each month, our confidence in the

future increases. We feel good about where we are and where we are heading and look forward to a strong second half of the year. So operator, now we're ready to take any questions.

Operator: And at this time ladies and gentlemen if you would like to ask a question press star then the number one on your telephone keypad. Again for any questions that is star then the number one. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Meredith Adler from Barclays.

Meredith Adler: Thank you for my question. I guess my first question would be, maybe you could talk a little bit about Internet sales in the U.S. Clearly the loyalty program in China is doing really well and being able to buy directly from the Company is doing really well in China. Are you seeing something similar in the U.S.? And how do you think that sort of develops as we look at it globally?

Des Walsh: This is Des. Meredith, we saw that Internet represents an element of choice for consumers. And certainly we've seen it be successful in China, but frankly in the U.S. and elsewhere I'm not sure that it is ever going to be a huge incremental factor in our business. It is a way for customers to be serviced on a 24/7 basis and certainly our members are using it for that purpose. But for the most part we are a face-to-face business. It is that interaction between our customers and our distributors that really is the magic behind Herbalife. So I think we see it as being an added benefit but as a separate sales strategy or driver I'm not sure that we are going to see it represent a key factor of growth in the future.

Meredith Adler: Thank you, that's helpful. And I guess I have a question about sort of what you are hearing in the U.S. There is clearly still some overhang from the investigation. What do you hear from members or from potential members? Is that just being sort of brushed off at this point? Clearly you had a huge number of people go to St. Louis, but just wondering how sort of that is developing?

Des Walsh: As it happens Meredith I actually just came back from the North American retreat we had our presidents team members all together. And overall the atmosphere there was just tremendously positive. Obviously St. Louis was a turning point for U.S. business. We had our Latino members and our general market members all together. Tremendous excitement, record attendance. And so overall the sense is that these are returning to growth. That a lot of the noise has subsided. Our member leaders have never been more confident about the future. They have acclimatized to the marketing plan changes. They have successfully implemented new trainings in their organizations in relation to income and product claims. So overall is very much a sense that the tide is turning and that good things lie ahead.

Meredith Adler: Great, and then I'll ask just one more question which I know nobody will answer but is there anything that can be updated about the investigation or we are still in no new information mode?

John DeSimone: This is John and I would say your assumption is correct, that there is nothing to update other than what is in our Q which is not an update at this point. When we do have an update we will do it in a board sense but nothing to update at this point.

Meredith Adler:: OK great, thanks very much.

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

Michael Swartz: Just wanted to touch on, John, I think you made a comment about Mexican VAT increase that's going through in the back half of the year. Could you just give us a little more granularity on that? What the impact is, maybe the volume points? Or what the net impact is to guidance?

John DeSimone: Sure. Just by way of background, it was recently there was a decree by the government that confirmed VAT on supplements. And in order to adhere to that we actually had to make a formulation change so that we could import the products under a viable customs code. That refund relation, most of it has happened. It has created some out of stock issues while we go through that reformulation, so that's one short-term issue. But in addition the VAT has a

16 percent VAT, it'll impact around 40 percent of our products based on current product mix and we estimate that that will have about a \$30 million volume impact in the back half of the year, that's our estimate. And that's been rolled into our guidance.

Michael Swartz: And will you guys be taking pricing to offset that volume hit? That incremental tax?

John DeSimone: (It's a tax that gets passed through), it's a VAT, it's a sales tax, think of it from a sales tax perspective. So it's a pass-through.

Michael Swartz: OK, OK. And then I think you also made a comment on just some of the drivers to gross margin in the quarter. You had mentioned about a 94 basis points impact from I guess from inventory write-down. Just for perspective, what is that typically in a quarter or on an annual basis?

John DeSimone: Well, that's a year-over-year comparison, that 94 basis points. So we're off more inventory than we normally do. Now a lot of that, about 5 million of that was Mexico inventory under the old formulas that we can no longer import given the new decree. So it was a little abnormally high this quarter. So that 94 basis point is just a year-over-year comparison.

Michael Swartz: OK great, thank you.

Operator: And again ladies and gentlemen, if you would like to ask a question, that is star then the number one on your telephone keypad. We do have a question from the line of Tim Ramey from Pivotal Research Group.

Tim Ramey: John, your new forecasting algorithm has proved to be pretty good. The fact that you did not make any real changes in sales the second half was heartening given the increase in currency. But if we kind of look at where the variations from what you're model told you, would it be fair to say that Brazil was better and EMEA was worse and China was better? Is that how you read it?

John DeSimone: You know there were two things I would say that really drove the worse of the downside so we were often little bit on Russia. But I think Russia is starting to recover. We see that in July, and we are off in a big way in Venezuela

which we don't even use that method to forecast Venezuela. It's not a big market for us. But I think I gave you the stats. It was like 28 million volume points the second quarter less year for Venezuela. It was only five this year, and that's a result of some really massive price increases that were direct impact of continued devaluation. So other than that, we were pretty close and a little under in China.

Tim Ramey: OK and when to repeat what you said about China in July as it related to canceling meetings last August?

John DeSimone: Yes, yes. I think this was misunderstood last year. So we have – unlike – China is a different business and unlike the rest of the world, we have a customer loyalty program. Sometimes referred to as preferred customer. But it's a customer loyalty program. Think about points program similar to an airline. And consumers can sign up for that program. They're not sales reps. They're upside the network where they can just buy products either in the field as a way to track consumption in the field, or directly from the Company. We can see the transactions directly from the Company. And I said 25 percent of our business in the second quarter came through that method of direct purchases from the companies from consumers. And a way to further promote that customer loyalty program, we are not allowing people to sign up as sales reps in July. That's behind us by the way. It's in front of (this announcement) of the second quarter but behind us at this point in time as that happened in July. We did the same thing in August, so it really should not impact the comparisons over sales leader numbers or member numbers. It's just way to promote customer loyalty program.

Tim Ramey: OK, and given that those two things are offset year-over-year, I mean do you continue to see strong double digit out of China? Do you think we'll see a continuation of the trends here?

John DeSimone: I think that's independent of what we're doing in July about not allowing sales reps to sign up. But I think we had a good first-quarter in China we had a good second quarter and we expect China to be a good market for us.

Tim Ramey: One other quick one. Your return rate, normally just discussed on an annual basis, I think you now have the ability to measure it on a quarterly basis. Do have that number for the Q2? Did it decline as you'd expect it would with the new compensation plan changes?

John DeSimone: So it was under 0.2 percent of sales. 0.2 percent. Was identical to what was in Q1. I don't have Q2 last year to know how it was year-over-year.

Tim Ramey: OK, thanks so much.

Operator: And again ladies and gentlemen to ask any questions, that is star then the number one on your telephone keypad. We do have a question from Scott Van Winkle with Canaccord.

Scott Van Winkle: Hi everyone, sorry. I dialed in a little bit late so I apologize for asking a question that's already been answered. I was just looking at the average active sales leaders and the new distributors and they kind of went different directions. New distributor growth really improved average active to growth was a little softer in Q2 than in Q1. Again I apologize if you talked about it, but can we kind of split the difference between the two?

Des Walsh: Hi Scott, this is Des. And the good news is, Scott, nobody has asked the question, so no worries. Got a couple of things. First of all obviously the average active sales leader number is impacted partially by Venezuela. We show overall a 5 percent improvement if you back out Venezuela from that number then we'll be closer to 6.5 percent. And I think you heard John's comment in relation to Venezuela, significant to tie in business there driven by very significant consecutive price increases arising from the evaluation.

If you look back at 6 and 6.3, 6.5 percent that is not materially different from what we had in the past. And again it shows that as the fundamentals of our business continue to improve, the percentage of average active sales leaders increases. In terms of new member activity I think two things to bear in mind, we've actually now have three consecutive quarters of increase in terms of the number of new members coming to our Herbalife. Obviously comparing Q2 2015 to Q2 2014 we have a decline, but as you know Q2 2014 was a record

quarter with both April and May being the two highest volume and therefore activity months of the year. So we continue to see strong improvement in new members and most significantly, Scott, what we see is an improvement in terms of the percentage of new members ordering because as you know for us that's really a key metric. It's not just about numbers. Just as with sales leaders, just with new members, what we're really focused on is engagement and so to see the number of (ordering) new members increase we see that as a very significant trend and metric in our business today.

John DeSimone: Let me put a number on that. So for new members that ordered product in the quarter is up 5 percent over where it was a year ago in absolute numbers.

Scott Van Winkle: I'm sorry. 5 percent growth of the number of new members who had an order in the quarter versus a year ago?

John DeSimone: Yes.

Scott Van Winkle: Great. And is that trend – I guess if we exclude Venezuela from the calculation, is a trend of having a build in new distributors at a time maybe where the average active number is a little bit softer, is that a function of the new qualification expectations, you know, the 12 month qualification program?

John DeSimone: So little bit. Certainly the number of new members that order directly from the Company is a direct result of the marketing plan changes. Because people are not allowed to buy in the field, when they try to qualify to become a sales leader that does create more transactions directly with the Company and that is an outcome. The other thing is with sales leaders, April and May were really difficult comps and the average active sales leader number improved a lot in June versus what was in April and May.

Scott Van Winkle: Got you, and it looks like this is playing out pretty much as you thought and to put a lot of effort into the guidance and of last year beginning of this year with all the changes. Is that fair to say, John? And is there a certain metric that kind of gives you the most confidence in the forecast you built up six months ago?

John DeSimone: So you're right in that we rebuilt the models and we had to rebuild the models to incorporate changes in behavior from the new marketing plan changes. I think really looking at new member activity and new member productivity and taking it down below the sales leader level was one of the changes we made. We don't do it for every market. But we do for the ones that are important to the overall guidance and that has been very helpful.

Scott Van Winkle: Great, thank you.

Operator: And we do have a follow up question from the line of Meredith Adler with Barclays

Meredith Adler: The first is, maybe I just missed this, but you said that you saw really good progress in three of the four key markets. What was the fourth market that you didn't see progress in?

Des Walsh: So the fourth market Meredith was Korea. And we did see some improvement but not to the levels that we saw in the U.S., Mexico and Brazil. And really one key reason for that is that as you know in Korea we actually have a slightly different marketing plan and not only in Korea did we make the same changes as we made in the worldwide marketing plan, but in addition we effectively introduced a new level in the Korea marketing plan and again with the same goal, the goal of creating long-term growth and stability. So the combination of those means greater impact in terms of assimilation and any time you've got a high level of assimilation then you actually had distraction in the market and time to adjust to it. The good news by the way is that we're seeing the impact of that and I think you heard us reference this, but the percentage of cumulative sales leaders increased to 68 percent in Q2 2015 which was almost double that of what it was prior year and similarly activity rates of new sales leaders significant improvement. So positive trend in Korea but the reality is it's going to take longer than in the other markets and I think we're really going to see a return to the growth that we've seen in the past in Korea will be a 2016 start rather than really 2015.

Meredith Adler: And then I have a sort of more theoretical question about when you see economic slowdown. I think you talked about this before but I'm wondering

if you still feel the same way that we clearly are seeing an economic slowdown in many places. Do you continue to believe that's going to booster business? I've specifically gotten questions about China, but Brazil has slowed, there are a lot of places that have slowed.

Des Yes Meredith, to be honestly do not see a direct correlation. I know there's a prevailing view industry that a slower economy means an increase in sales. We have seen that going both directions so I have to say there's not a direct correlation.

Meredith Adler: Great. Varies market to market you mean?

Des Walsh: Yes.

Meredith Adler: OK thank you those are my questions.

Des Walsh: Sure thank you – you're welcome.

Operator: We do have a follow-up question from the line of Mike Swartz with SunTrust.

Michael Swartz: Maybe John or Des can answer this. I was running between calls, but can you maybe give us a little more granularity around some of the cost efficiency measures that I think you alluded to earlier and how those should play out through the rest of the year?

John DeSimone: This is John. I will take that one. I think we have been pretty transparent that we have been what I call cost control, not so much cost-cutting. It's just why transition through these marketing plan changes. We want to look at discretionary spending and keep it as low as possible. But in areas that do not affect our member base. Things that they don't see or touch. So it's consultant, professional fees, it's travel, it is really just being prudent in the areas that are not critical right now and will put them off until we get through this transition. So we will continue to have that focus throughout the rest of your.

Michael Swartz: OK thank you.

Operator: We have no further questions in queue. Michael, do you have any closing remarks?

Michael Johnson: Yes John?

John DeSimone: Let me clarify one thing. I think when we talk about China and the change in July of just bringing in loyal consumers, it doesn't – we don't expect that to impact the volume from that marketplace. I just wanted to clarify that before I pass this back to Michael.

Michael Johnson: Want to clarify anything else?

John DeSimone: No.

Michael Johnson: Just checking. Before we close the call, while we close the call, we thank you, all of you, for being on this afternoon with us. Obviously, our shareholders are important to us, our stakeholders, our shareholders and employees of course our members, our customers, and all the folks who are aligned and associated with us through our brand. We are very proud of Herbalife and as you can see we're on the move. We're confident, focused, invigorated, and we're looking forward to reporting back to you on our next call, our results for the third quarter. Thank you very much.

Operator: Ladies and gentlemen, this does concludes today's conference call. You may now disconnect.

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