

**HERBALIFE INTERNATIONAL OF AMERICA, INC.**

**Moderator: Alan Quan**  
**August 3, 2016**  
**5:30 p.m. ET**

Operator: This is Conference # 38673773

Operator: Good afternoon and thank you for joining us second quarter 2016 earnings conference call for Herbalife Ltd. On the call today is Michael Johnson, the company's chairman and CEO, the company's president, Des Walsh , John DeSimone the company CFO and Alan Quan the company's Vice President Investor Relations.

I will now turn the call over to Alan Quan to read the safe harbor language.

Alan Quan: Before we begin as a reminder before this commerce call comments may be made that may include forward-looking statements.

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

We encourage you to refer to today's earnings release in 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 statements 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 the 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), 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 point.

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

Michael Johnson: Thank you, Alan, and thanks, everyone, for joining today.

This quarter we sold more products than any quarter in Herbalife history.

Worldwide volume points grew 9% compared to the second quarter last year with approximately 80% of our markets reporting an increase in volume points and four of our six regions, EMEA, the United States, Mexico and China achieved record high volume points.

This is a fantastic performance by our members and employees any continues the great momentum was all coming into 2016. As I'm sure you all remember almost 2 years ago said that the marketing plan changes with committed to carry out would lead us to record volume.

And that's exactly what we are now experiencing.

We are immensely proud of our members around the world who help us deliver through their hard work and dedication to their customers.

Today our members are bringing a range of nutrition products to more customers than ever before.

As a result of this performance our reported net sales for the second quarter grew 3.4% to \$1.2 billion compared to the same quarter last year.

This is year-over-year net sales growth for a second consecutive quarter despite ongoing currency headwinds.

Our focus on managing expenses allowed us to absorb the negative effect from currency swings and continued supporting volume growth all the while keeping our gross margin essentially flat.

We also recently announced our settlement with the US Federal Trade Commission and the Illinois Attorney General which included a payment of \$203 million; as a result of these regulatory settlements on a reported basis we reported second-quarter net loss of \$22.9 million or \$0.28 per diluted share.

This compares to a net income of \$82.8 million or \$0.97 per diluted share for the comparable quarter last year. However our adjusted earnings for this quarter grew 4% to \$1.29 per adjusted diluted share compared to a \$1.24 per diluted share for the second quarter in 2015. The adjusted EPS of \$1.29 exceeded the high end of our guidance of \$1.20. Like many multi national companies with a majority of their sales outside the US currency exchange rates have really worked against us over the last few years.

The combined effect of currency headwinds over the past three years has negatively impacted our full-year 2016 adjusted earnings projections by almost \$3 per share including Venezuela and \$2 per share excluding Venezuela.

During the second quarter alone reported diluted EPS was negatively impacted by \$0.32 and adjusted diluted EPS by \$0.31. Our CFO will talk about our strong financial performance in more detail in just a minute.

While our earnings are the reasons for this call and you're interested to hear more about the FTC settlement so let me address that as well.

John will go over a lot of the details but let me take a moment to explain we these changes are good for our company for our industry and most importantly for our customers.

As we announced on July 15 we reached a settlement with the FTC; we also reached a settlement with the Illinois Attorney General and with this closure the company is not aware of any active investigations by any other state Attorney General.

With the settlements behind us we can now put the full power of our more than 8,000 employees and 4 million members into building and even stronger and more focused nutrition company that meets the needs of consumers in our 94 markets around the globe.

There are many reasons why this agreement is significant but let me highlight just a few.

First our agreement with the FTC requires us to categorize our members as either preferred members those who only desire to buy products at a discount or distributors those are interested in selling our products to earn supplemental income.

Distinguishing customers from business building distributors simply make sense.

It is something our management and our member leaders have been called to play for a while because we know that it will allow us to better tailor our products training and services to meet the distinct needs of each of these groups.

The second important element is that the distributor compensation will now be paid based on their sales to customers along with an allowable level of personal consumption.

We are already developing apps and tools to help our distributors track their customers activities and submit their customer sales receipts. These new

capabilities to record and track sales data will provide valuable customer information that will provide better support to our members and we believe it will help our distributors build an even stronger business and enhance their and standing of their customers to a level similar or even better than consumer packaged goods companies.

After more than two years of working with the FTC we have the greatest confidence in our ability to comply with the agreement and continue to grow our business in the US and around the world and we believe that this will be proven over time.

Throughout the negotiation process we discussed the details of the settlement agreement with select member leaders under a confidentiality agreement; their overwhelming support and the desire to continue evolving and improving this great company provides us with the confidence that our distributors will embrace and maximize these changes to further improve their own businesses.

In fact we have heard from members around the globe who are now asking if they too can have access to some of the tools being developed because they want access to this type of customer insight.

We feel strongly that once we have an opportunity to learn more from the experience in the United States will likely rollout certain aspects of the agreement globally, such as segmenting the member base and providing our members with the ability to collect customer receipts and thereby access enhanced customer purchasing insight. Also it should be noted that while we have 10 months to implement some of these changes will plan to rollout systems for example to help our members track and submit their customer sales receipts in the fourth quarter.

We anticipate that we will have the tools in place in advance of the deadline and expect that we will be testing the systems in parallel in early 2017. Our members' enthusiasm and support were demonstrated fully at our North American extravaganzas in July; extravaganzas for self-defense where members learn more about our products embassy business training to help them build their businesses.

Approximately 32,000 members attended our events and Long Beach and Atlanta which was the largest combined attendance extravaganzas and Herbalife history. Though the Atlanta event took place just a few days after the FTC announcements our leaders initiated training all preferred members and modifying their lifestyle claims consistent with the terms of the settlement and since then we have continued with those training issues and will continue to provide more information so our members can better understand and embrace these changes. Herbalife is really now at a very exciting inflection point.

We were founded 36 years ago on a vision to change the nutrition habits of the world (with a) the canister Formula 1 into every single home the opportunity is bigger today than ever for as more consumers see better nutrition.

Last year we served about 300 million Formula 1 shakes in the United States; our ambition is to grow that substantially.

We envision our shakes and boosters will be part of people's daily lives as routine as the morning orange juice or a cup of coffee.

Through that daily consumption experience we can introduce the customer to a broader range of nutrition options for all stages of life.

What makes Herbalife such a unique and interesting businesses that our product comes with a knowledgeable member coach and a personalized nutrition support structure.

These critical differentiating factors are just not available at traditional food, drug, or mass retailers.

Our members help customers to incorporate positive nutrition habits into their every day routine and educate them as to what it means to live a healthy active life and support them as they adopt these changes.

This happens at our nutrition and fitness clubs and customer homes and increasingly on social media.

Our quality nutrient dense products and our distributed health network through our distributors gives us a huge competitive advantage.

It is the ability to give a voice to our product through a conversation with the customer about nutrition that makes us the ultimate last mile in the distribution chain.

It builds our product into people's lives and enables their results.

This establishes customer loyalty and sets us apart from other nutrition products found on an impersonal store shelf or on a page on the Internet; our product is alive.

Our drive selling model allows enterprising people who share in our mission and love our products to shape their own health community and earn supplemental income from it. We have never been more confident or excited about our business model.

And thanks to our customers and our products we are achieving record volume here in the US. As you may recall during the last six years we have invested over \$250 million in our Seed to Feed program to ensure we can continue to innovate in support growth in global demand.

We have five innovation and manufacturing sites worldwide produce nearly 70% of our products and all of our quality labs around the world have achieved the prestigious ISO 17025 certification, supporting our quality regulatory and product development activities as our staff of more than 300 scientists including 36 PhD's who are committed to put Herbalife at the forefront of nutrition.

Two years ago we open to an 800,000 foot state-of-the-art facility in Winston-Salem North Carolina.

While this facility continue to scale up it already produces the largest output of any of our innovation and manufacturing facilities; once fully operational it will support our growth for the foreseeable future and will allow us to export US-made nutrition products to over 50 countries. In July e started operations

Nanjing, China. Our Nanjing facility located in the Jiangsu province produces Herbalife dietary supplements and food products and will provide the necessary capacity to support our ongoing growth in China.

And to meet this growing demand we need to hire even more talented employees; we just announced new job fairs to help us hire approximately 175 people in Winston-Salem and California.

And worldwide we are adding more than 200 more positions to support our growth.

Our board also approved last month the expansion of our shared service center in Mexico; with the growth of the Americas region expanding the shared services will ensure that we can provide high (tech) support to our members in the most efficient means possible.

Globally we are committed to doubling the size of our shared service operations in the next three years.

We're growing, hiring and helping more than ever before and we are proud of who we are and where we're going.

Like all companies our employees are critical to our success and we focus on recruiting the best and the brightest. We are proud that Forbes recently recognized Herbalife as one of America's best mid-sized employers in the United States.

In closing I would like to commend our members for their successful assimilation of the marketing plan enhancements that contributed to this quarter's record performance. As you can tell we are really excited about this performance and the underlying metrics; we are performing incredibly well as this quarter shows.

With the FTC settlement now behind us we can turn our focus entirely on our future and making positive health impacts across the world.



John will now walk you through our financial and performance metrics and expand on certain aspects of the settlement. John.

John DeSimone: Thank you, Michael.

I will start today by reviewing the company's second-quarter 2016 reported and adjusted results including key market highlights.

I will then discuss our third quarter and full-year 2016 guidance.

Lastly I will close with detailed comments regarding our recent settlement with the FTC.

For the second quarter worldwide volume points increased 9% compared to the second quarter 2015. Second quarter 2016 volume points of 1,484,300,000 represent the highest quarterly results in the company's history doubling the high-end of our guidance range of 4.5 percent growth. Four of our six regions set quarterly volume records and approximately 80% of our markets experienced volume point growth in the quarter.

Second-quarter reported worldwide net sales of \$1.2 billion -- increased 3.4% -- while local currency net sales grew 10%, both compared to the prior-year period.

Reported EPS for the second quarter of a loss of \$0.28 per diluted share includes the impact of the \$203 million expense related to the recent regulatory settlement and compares to the \$0.97 earnings per diluted share for the second quarter of 2015. Adjusted earnings per adjusted diluted share of \$1.29 increase 4% compared to the \$1.24 per diluted share reported for the second quarter 2015, despite a negative impact of \$0.31 from exchange rate headwinds.

The adjusted EPS of \$1.29 per share also exceeded the high end of our guidance of a \$1.20 per share.

Moving on to our regional and market highlights, for the US, volume points of 338.5 million hit a new record and increased 13.8% compared to the prior-year quarter.

The momentum of the US continued from the first quarter as our members remained focused on building long-term sustainable businesses based on customer demand and daily product consumption.

Toward the end of my comments I will discuss the recent FTC settlement and its potential impact on the US business going forward.

Volume points in China increased 9.6% compared to the second quarter of 2015, a new record high for that country.

This growth comes in the face of a difficult second quarter (comp) and the market will continue to face challenging growth rate comparisons for the remainder of the year. In the second quarter Mexico posted 10.3% volume growth compared to the prior-year quarter and also set a new quarterly volume point record.

Turning to EMEA, approximately 80% of the markets in the region showed a volume point growth in the quarter resulting in a regional increase of 21.3% compared to the prior-year period.

Volume points for Russia were up 22.2% in the quarter due to an easier comp given by a price increase impacting the second quarter of 2015. Volume in the South and Central American region decreased 7.4% compared to the prior-year period.

However excluding Brazil volume points in the region increased 1.9% for the second quarter.

The macroeconomic environment continues to be a challenge in Brazil as volume points declined 20.4% in the second quarter 2016 similar to the decline we saw in the first quarter.

We continue to expect volume points in Brazil to be impacted by the macroeconomic conditions and this is reflected in our guidance.

Asia-Pacific volume points increased 2.4% compared to the prior-year period. Volume points for Asia-Pacific excluding South Korea increased 19.1% compared to the prior-year period.

Moving on to our financial highlights for the second quarter, as previously mentioned, the second quarter represented a new worldwide volume point record with an increase of 9% compared to the prior-year period.

Worldwide reported net sales of \$1.2 billion increased 3.4% and 10% on a constant currency basis compared to the second quarter 2015. On a reported basis the second-quarter net loss of \$22.9 million or \$0.28 per diluted share compares to net income of \$82.8 million or \$0.97 per diluted share in the second quarter 2015. Our reported EPS continues to include items we consider to be outside of normal company operations and we believe will be useful to investors when analyzing period over period comparisons of our results.

These adjustments are detailed in today's earnings press release.

There are two new items included in the adjustments this quarter.

One is the regulatory settlement and the second item is a \$28.1 million or \$0.23 per share income item which resulted from government grants received in China related to the regional headquarters and regional distribution centers established in certain locations in China.

The purpose of these China government grant programs is to encourage local investment in operations, however there is no (assurance) that the company will continue to receive these grants in future periods.

Second-quarter 2016 adjusted earnings per adjusted diluted share increased 4% to \$1.29 per diluted share, compared to a \$1.24 per diluted share in the second quarter 2015 which exceeded the high end of our guidance at a \$1.20 per diluted share.

Compared to our second-quarter guidance the increase in our a just EPS was primarily due to higher than expected volume net sales. Second-quarter 2016 reported net income and EPS were negatively impacted by \$27.7 million or \$0.32 per share from negative currency fluctuations.

And adjusted diluted net income and EPS were negatively impacted by \$26.6 million or \$0.31 per share from negative currency fluctuations.

Gross margin for the second quarter was approximately flat versus the prior-year period. Gross margins included the favorable impact of cost savings through strategic sourcing and self manufacturing of 88 basis points, lower inventory write-downs of 81 basis points and retail price increases of 37 basis points, which were partially offset by the unfavorable impact of foreign currency fluctuations of 165 basis points.

For the second quarter reported SG&A as a percentage of net sales were 56.3%, a significant increase compared to the prior-year period primarily driven by the \$203 million expense related to regulatory settlement.

Excluding the impact of the SG&A related items (we backed out) for adjusted net income and diluted EPS purposes, which are discussed in today's press release, SG&A was 38.7% of net sales a decrease of 18 basis points compared to the prior-year period.

Excluding China member payments and the items I just listed, SG&A as a percent of net sales was 29% which is essentially flat with the prior-year period.

Our second-quarter reported effective tax rate was 46.7%, while our adjusted effective tax rate was 26.8%. Cash flows from operations for the second quarter was \$226.9 million which represents a 15% increase from the prior-year period.

At the end of the second quarter we had \$937 million in cash, of which over 50 percent was held in the U.S. At the end of the second quarter we had \$937 million in cash of which over 50% was held in the US. The company has since May payments of \$203 million and regulatory settlements from this balance.

Moving on to third quarter guidance and the remainder of the full-year 2016 guidance, worldwide volume point guidance for 2016 has been updated to a range of 4.5 to 7.5% growth; this reflects a full-year increase of approximately 130,000,000 volume points partially due to the (beat) in the second quarter.

Volume point guidance for the third quarter is estimated to be in the range of five to a percent growth.

In addition to providing guidance for adjusted EPS we are also providing guidance for reported or GAAP EPS for the full-year 2016 of \$2.30 to \$2.60. Adjusted diluted EPS guidance to the full year has been raised to a range of \$4.50 to \$4.80. We have adjusted full-year EPS guidance to reflect the better-than-expected results in the second quarter 2016 and the update to a four-year volume point guidance partially offset by unfavorable currency movements.

Full-year currency headwinds are now estimated to be approximately \$0.90 per diluted share which is \$0.20 higher than the guidance provided a quarter ago.

Third quarter GAAP diluted EPS guidance is estimated in the range of \$0.74-\$0.84 and adjusted diluted EPS guidance is estimated in the range of \$0.98 to a (\$1.08), which includes an unfavorable currency headwind of approximately \$0.14 per diluted share compared to the same quarter 2015. Net sales guidance for the full-year 2016 remains at 1.5 to 4.5% -- on a constant currency basis full-year adjusted net sales guidance is now within a range of 7% to 10% growth of from the previous range of 6% to 9%, reflecting the increase in our full-year guidance, partially offset by a negative impact from country mix.

Worldwide net sales guidance for the third quarter is estimated within a range of 2% to 5% growth.

Our capital expenditure for the third quarter expected to be within a range of \$35 to \$45 million and for the full year we are now projecting a range of \$160 million o \$180 million, up from the previous guidance of \$145 million to \$175 million. Lastly, our effective tax rate guidance has been updated to a range of

27.5 to 29.5% for the full-year 2016. Our effective tax rate guidance for the third quarter is 28 to 38%.

I will now discuss in more detail items related to the FTC settlement.

After more than six months of negotiations our desire was to reach an agreement that will not only be in the best interests of our members and our company but would also allow us to focus on growing our business without the distraction of a protracted litigation.

We believe the settlement achieved that goal.

And further we believe these changes will create a greater understanding of our business model by customers, investors and regulators, which will only strengthen our business in the industry over the long-term.

For more than a decade we have focused on growth while simultaneously leading a process of continuous business improvements and making significant infrastructure investments that have helped us become a leader in the nutrition industry.

We believe the changes we agreed to with the settlement will make our business even stronger. Much has been written about the terms of the settlement and what it means for our US members and their customers as well as our business performance.

So let me start with the basics.

First as Michael mentioned we will segment our member base into two categories, preferred members who joined purely to obtain a product discount and distributors who are business builders and will be able to resell product and potentially earn multilevel compensation.

This segmentation will help us clearly differentiate these two member groups going forward and eliminate any confusion regarding the intent of our member base.

While the order requires us to complete this segmentation by May 2017, our current plan is to implement it in the fourth quarter of this year, as our members have embraced this change. In fact two weeks ago our members started training on the segmentation during the Atlanta extravaganza which reinforced our belief that this change will have a positive impact on our business.

Before moving on to the other elements of the order I also want to clear up and confirm that the key operating structure of our marketing plan compensation for distributors will remain unchanged as part of this order.

Distributors will continue to have the opportunity to earn retail and wholesale profit. Royalties, production bonuses and the (mark-ease) bonus based on (their) and (their downlines) product sales.

The new guidelines from this consent order do not change these existing structural elements of our marketing plan.

The consent order does however allow us to pay more than we do today on properly documented sales.

We believe there are two core elements to this section of the agreement.

First we will pay multilevel compensation on retail sales, or put another way, we will pay multilevel compensation when the product is sold to the end user instead of when it is initially purchased by the distributor. Although in many cases the end user and the initial purchaser of the product are one and the same.

Second and to that point, while a distributor can be paid on allowable levels of self consumption we will remove any incentive for a distributor to use self consumption as a means to meet volume thresholds, thereby removing any question as to the purpose of the purchase.

Most of the other components in the order cascade from these two core elements and service mechanisms to ensure that they work as intended or function as boundaries to prevent possible loopholes.

Let me expand further on the first core element, the one in which we will pay multilevel compensation on retail sales. In order to accomplish this effectively there are four types of purchases to consider. First purchases made directly from the company preferred members. These sales automatically qualify as retail sales.

Second purchases made by distributors that are intended for their own self consumption up to an allowable amount. These also automatically qualify as retail sales.

Third product drop shipped from the company to the retail customers of our distributors; these also qualify as retail sales if properly documented.

And fourth, lastly, purchases by distributors intended for resale in the field; this is a bit more complex and I will explain in a moment.

In relation to the first three categories all purchases by preferred members, purchases for self consumption by distributors up to an allowable limit and properly documented drop shipped product sales to retail customers -- there are only minor changes to how we operate today -- we can reward multilevel compensation as we always have; at the time the purchases made directly from the company.

Importantly based on external studies and internal data analysis looking forward currently believe and estimate that these three categories represent more than 65% of our US sales. This effectively means that there is no very little change to our business for approximately two-thirds of our total US sales.

In the case of the fourth category, the one in which a distributor purchases product that is intended to be resold in the field, we can pay multilevel compensation for any field transaction so long as they are appropriately documented and submitted to the company.

With technology that is available today we believe we can make the tracking of these consumer sales in the field both simple and effective thereby helping



our distributors by providing them with better tools to operate their business more effectively going forward.

Such receipt tools including a mobile application that will automatically integrate into our corporate system have been in development since March and we expect to have them tested and in place before the end of this year. This will allow us time to fully incorporate the receipt tracking requirements within the ten-month implementation timeframe.

Moving on, let me also provide context and clarity on other aspects of the order that has raised some questions. Let's first start with the 80% rule, which is probably been the most understood part of the order. It's actually very simple.

For all properly documented sales which includes the four types of transactions I mentioned earlier we can fully pay out our current marketing plan plus 10% more than we pay today if we choose to do so. Further, if at least 80% of our US sales are from these four categories, then we will be able to increase our payout on properly documented sales by an unlimited amount.

The logic behind this rule was to prevent a potential economic loophole in which likely profits from non-rewardable sales we used to fund except if MLM compensation on rewardable sales.

The second most commonly misunderstood part of the order is the two thirds, one third limit.

Basically this represents a guideline to ensure a proper balance between customer sales and the self consumption of product by distributors.

Let me point out that this is a scale, not a cliff. A distributor will always earn above the purchases of their preferred members, the preferred members of their downline as well as properly documented customer field sales within their downline.

It's only to potential compensation from self consumption of distributors that may be limited if it is more than one third of their downline business.

And if it is more than a third, it will be reduced to the one third limit which is the maximum amount they can earn for personal consumption within their downline.

Also to be clear and as always been the case with the Herbalife, no compensation will be paid for solely enrolling or recruiting anyone into the program.

We have never done this.

Moving on to nutrition clubs, the order requires a one-year waiting period before opening a commercial leased location. While our current program has a 90 day waiting period, 77% of all new registered clubs in the US which opened since the beginning of 2015 were opened by distributors with more than one year tenure.

Accordingly we do not believe this new guidelines will have a material impact on our nutrition clubs in the US.

With that overview of some of the key elements of the order I would like to spend a few minutes on the cost to implement the changes required, the implementation timeline and the potential impact to the US business. The costs fall into two buckets, one-time implementation costs and ongoing operating costs. We estimate the one-time implementation cost to be a proximately \$15-\$20 million for capital and \$20 million-\$30 million of one-time expenses which is excluded from our guidance.

The ongoing operational costs are estimated to be approximately \$5 million-\$10 million annually. With respect to the implementation timeline, while the order provides us with 10 months, our goal is to have many of the key elements completed sooner and all of the tools operational by the end of this year.

This will enable us to run in parallel for the first four months of next year before going live in May, 2017. We believe this will provide some runway for our distributors to further embrace the receipt element of the order, gain a

working knowledge of the tools and the reporting elements and allow us to make enhancements that will ensure success.

We believe that we will be able to implement these changes over the course of the next 10 months with minimal disruption to the business.

However as our members train, adapt and assimilate to the new tools and rules any distraction could have a short-term impact to the US business. Not unlike the impact seen in recent marketing plan changes. Like those past changes, we expect to cycle through any transitioning impact in a short period of time.

As we implement key elements of the order, introduce new tools and begin to gather data will update investors accordingly.

Before turning the call back to Michael let me conclude by stating we are fortunate to have an investor base that has dedicated significant time and effort to learning about our company, our products, our marketing plan and our distributor base.

In speaking to investors I believe many have conducted their own work and are confident in knowing that we have millions of satisfied customers. We have amazing distributor leaders who we believe will embrace these changes and build their businesses even stronger.

The strong growth we experienced in the second quarter in the US is a reflection of effectively implementing marketing plan enhancements over the past two years. I'm confident that once implemented the changes currently being introduced will once again be a catalyst for growth.

I will now turn the call back to Michael before opening up for questions.

Michael Johnson: Thanks, John.

So, once again as you all heard, this is a fantastic and historic quarter for Herbalife.

Our momentum and performance of reflects the strength of our distributors' businesses and with the regulatory settlement behind us we have never ever and more focused.

So, let's go now to Q&A.

Operator: 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 brief moment while we compile the Q-and-A roster.

Our first question is from the line of Michael Swartz with SunTrust.

Michael Swartz: Just I guess just trying to get a sense in some of these changes to the business plan coming from the FTC settlement and I think we're all just trying to boil it down and figure out what exactly this means and I think John, in your remarks you had said you know we could see a period you know similar to when you rolled out the 12 month qualification or the first order limitations or maybe we get a slight plateauing or temporary plateauing in the business.

So I guess just based on what you see today is there any time horizon that we should be thinking of as to when we could see that?

Des Walsh: Mike, this is Des.

So the analogy here, Mike, is that just as you saw us with the enhancements to the marketing plans, whenever (there's changes made here) our members take the time to train to adopt to assimilate to incorporate these changes into our business. So we started the whole process early. Obviously as you overheard Michael reference we began literally just a few days after the announcement of the beginning of training in Atlanta.

So I think we're going to see that adoption assimilation take place through the remainder of this year and obviously into early next year.

But the most important thing is that we don't see any long-term impact in our business because we engage with our distributor leaders and we only moved

forward with the settlement once we have their input that we could not only do well but in fact thrive under the terms of the settlement.

Michael Swartz: And just a follow-up, in terms of the distributor base I think you said you had some record attendance at some of your US extravaganzas but you guys have typically have pretty good visibility into distributor engagement and volume trends. So I know this is only three weeks or a couple weeks into the settlement but is there anything you can point to within the US business from an engagement or volume level standpoint to give us a little more comfort that this has been accepted and we are starting to turn the page here?

Des Walsh: Yes, so Mike I think that is very evident already.

We saw in terms of our numbers that for the Atlanta extravaganza we obviously had a very strong showing at Long Beach before the settlement but we actually had an even stronger attendance in Atlanta. Similarly I think if you had been there you have seen the attitude of our distributor leaders is tremendous.

They actually view many elements of the settlement being positive for the business. Some of them we have spoken about for some time -- the segmentation between preferred members and actual business (builders but we're) now going to be (resuming calling) distributors.

They see the ability to actually have receiving tools which will give them greater insight into customers, give them greater information regarding segmenting their customers, incremental sales opportunities -- all these things are seen as positive so obviously as with any change there is a period of adoption but overall certainly the attitude of our members and their engagement has never been stronger.

Male: Yes and Mike if I could just add and you started out by saying recognizing it's early; it's only been a few weeks.

But there has been no change in the trends of starter kits that we have sold so as an indication of engagement level so again early -- but no signs of concern at this point.

Michael Swartz: And then one follow-up, just in terms of the kind of self consumption discussion that you had a think you said there has been some sort of threshold to whereby the distributor goes over that they are not compensated based on the volume; can you give us a little more detail on what maybe what that threshold is?

John DeSimone: Yes sure Mike this is John I would do that. There's two types of thresholds so one is at an individual distributor threshold where their purchases up to an allowable limit and for the first year it's \$200 can be rewarded. That's at the micro level.

At the macro level the earnings that they receive – (no) more than one third of it can come from that limit -- purchases within that limit. So the two concepts are one individual who is a business (participant) can buy and use as much product as they want but only up to \$200 is going to be rewardable and anybody who has a downline has to focus the appropriate amount of time on selling to customers as they do selling to internal consumption of the business participant.

Michael Swartz: OK great. And then one more question if I may just in terms of the – you outlined some of the costs associated with the program that you are rolling but I think you said \$5 million to \$10 million of that is ongoing costs? Is that capitalized or will that be expensed?

Male: Well that will be an expense going forward.

Michael Swartz: That's all expense. OK. That's it for me. Thank you.

Male: Let me add by the way – and this is not unimportant – that while internal consumption above the allowable limit isn't directly rewardable, the FTC and Herbalife recognizes that not all of our sales are going to fall within the limit and not all of our sales are going to get receipted and that's why there is the 80% rule. So there is an allowable if you want to call it, breakage, within the order.

So that in effect the (up-line rewards) can still be paid out based on purchases.

Michael Swartz: OK. Thank you.

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

Male: Hello Tim.

Tim Ramey: Good afternoon, thanks and congratulations.

So on – I've got several questions. I didn't note anything in the queue on any changes or processes under way on the credit agreement; is there anything to say there John or is that just on the to-do list?

John DeSimone: Well, it's a process – I think it's important to note that big picture capital structure as you know and investors know and (end) cash management strategies are an important part of our company's vision -- the management team along with the board have been and will continue to be develop (and evaluate) all possible options and we will make those decisions that we think is in the best interest of our shareholders long-term.

And when and if there is something to announce that will be determined by management and the board and at that time, like our history in the past, we will announce something.

Tim Ramey: Would you care to kind of restate what your goals would be for the capital structure, assuming that you had the covenants that would allow it. (The tricons statement was really) aggressive in terms of leveraging the company it seems – (doing) acquisitions perhaps – what's your comfort level now? Assuming that you have the credit agreement in place?

Male: Yes, it is a question I'm not sure this is the right time to answer. I think historically we have said we are willing to lever up to a coverage ratio that is consistent with investment grade; that can mean different things for different companies. It doesn't mean we will be investment-grade; that certainly hasn't changed ...

(Multiple Speakers)

Male: ... is that sort of two to three times is that?

John DeSimone: Yes, that's two and a half, three times, it's kind of the way the management team has historically said they were comfortable.

There is a board of directors that gets involved in this decision and whatever ultimately is decided will be in the best interest of our shareholders long-term and if there is something to announce we'll announce so right now I'm just giving you my opinion that is consistent with the historical opinion we've had.

Tim Ramey: And quick scan of your hundred plus page (queue), it looks like you changed the language relative to any SEC investigation – I think it's sort of in the past tense now.

Is there a comment specific to that?

John DeSimone: I don't think we changed much in our language, Tim. I think what -- we removed or changed language relative to the FTC and the Illinois AG and that is really it; no other changes were made.

Our -- we are a big company. We get questions and inquiries from time to time like all the companies do and if there is anything material to disclose we will disclose it.

Tim Ramey: OK and, Des, I wonder if you have given thought to what the preferred customer cost of entry will be? I assume that it would be in the company's best interest to make that a very low bar for someone to become a preferred customer (dinovo) -- is there anything you can shed light on there?

Male: Yes, so Tim, it's – as you can imagine, it's certainly an active discussion at the moment but at this stage we have no final determination on that.

Tim Ramey: OK.

And, John, as you went through those four buckets of sales, I'm assuming that nutrition clubs basically fall into bucket four; what percentage of sales if you can say in the US now run through nutrition clubs?



John DeSimone: So, first, you are correct that nutrition club transactions in the field with part of that fourth bucket.

We are creating a tool for which nutrition club operators can track their members' entry into the club and consumption based on what they sell to those members.

That tool which we've used in different respects in China -- so it's got some testing already behind it -- actually automatically integrates into our system and so there's really no submission needed as long as the tool is used.

It will be automatically integrated. As far as what percent of our sales are from those member fees which is I think is what you are talking about -- is more than just take home sales out of the nutrition clubs. Just to be clear the study that was done -- just a couple of years old now -- that was done by a third-party that we gave suggested I think it was 16% of our sales were done through that mechanism.

Tim Ramey: Got it. OK.

And on the tough to implement I think you said \$20-\$30 million of operating costs; is that a -- is that sort of (one-time) or I missed part of what you said?

Male: Yes.

That's what I said, that there are one-time costs to get this up and then there's ongoing operational costs and what you noted was for the one-time cost the operational costs to get this functioning year to year is \$5-\$10 million.

And let me go back -- I think there's -- maybe there's an important additional point to your last question, which is how much sales go through clubs.

I think one of the benefits of what we're going to implement is a lot more visibility into the transactions that take place in the fields (that will) us the actual retail profit, how much of our sales go through the various mechanisms, (vectors, channels) -- a lot more data for us to be more effective with consumers and for our distributors to be more effective with consumers.

Tim Ramey: That would be great to have as investors as well if we could.

Male: And investors and anybody else wants to know more about our company.

Tim Ramey: Great. Hey, thanks so much.

Male: Our next question's from the line of (Phil Tripoli) with Wedbush.

(Phil Tripoli): Thanks for taking the questions.

Just a couple of things, sort of from a timing perspective can you walk us through some of the incremental changes? You mentioned a few things earlier but I think a couple of times I heard 4Q and in early 2017 for some others, so just walk through sort of what we should see from the FTC changes and kind (of when) with the cadence.

Male: Yes, so the objective that we have is to make sure the segmentation is in place in the fourth quarter and that the receiving tool is in place in the fourth quarter so we can start getting results in parallel (to the) compensation system for a few months. Because the compensation programming is what takes the most time and that gives us some runway is to see how the people in the field behave to know where there needs to be more (assimilation) or how the tools are being adapted or how we can make the tools more effective before this goes live in May.

(Phil Tripoli): All right. OK. That's helpful.

And I guess sort of from a bigger picture perspective, what kind of gives you confidence that you can implement these changes within the timeframe allotted and I guess how smooth do you sort of expect this to be based on some things you have done in the past?

Des Walsh: Yes, so this is Des, so we are very confident about this, (Phil), for a number of reasons.

First of all as you know we consulted with some of our top leaders before we moved forward and we moved forward having had their input regarding the

likely business impact. And so we were (absolutely) confident therefore that we could thrive under the proposed settlement terms.

I guess the second thing is that after years of studies and our own extensive data analysis we're absolutely confident that our business is solidly based on a foundation of daily consumption and that we've got millions of satisfied customers out there.

And I think the third element is just the advancement in terms of mobile technology and the proliferation of Smartphones among our distributor base.

And what that means is that is now practical for us to provide receipting tools to enable our distributors to effectively track retail sales and upload that data seamlessly to us. So really when you combine the consultation with our distributor leaders, our consumer base business, access to technology and frankly our internal resource of over 1,000 technology employees that we have in shared services centers around the world -- combination of all those factors just gives us complete confidence in our ability to effectively implement the agreement.

(Phil Tripoli): Got it. And then just last thing for me, you look back kind of pre-FTC, you guys had a dividend; any sort of discussion with the board yet about bringing that back or potentially re-implementing a dividend policy? Thanks.

John DeSimone: Yes, this is John. I'll take that. I'll just -- it kind of dovetails into Tim's question about capital structuring cash management and we're just not ready to make a comment yet.

Male: I do want to point out that everything is on the table and like I said when the board feels the timing is right we will I'm sure make a disclosure.

Male: Our next question is from the line of Ethan Devine with Indus Capital.

Ethan Devine: (On that line of) questions, well maybe more just philosophically and ongoing as opposed to talking about restructuring balance sheet, so let's say the company is going to do something in the neighborhood of \$500 million of free cash this year.

Historically the company has returned hundred percent of free cash to shareholders since IPO; is there any reason for us to think going forward that would be different? And then philosophically how do you think about (buyback first dividends)?

Male: Great question. I think you are right on historical practice. Just some data points that I think that put it in proper context.

Since we instituted the buyback in the dividend in 2007, we've repurchased \$3.1 billion in stock and (then) dividend (out) \$600 million to our shareholders.

So it's heavily weighted towards buyback.

Our approach had always been as a growth company that buying back stock below the intrinsic value of the company was the best way to return value to those shareholders that stay with us. We still continue to think we are a growth company. We've got some things to work out; we have a bank deal that's due in March.

That bank deal is not friendly to buybacks. We are not ready to discuss what our future options are. Once we clear up some of some of the restrictions in the current debt deal – like I said, when we are ready we will discuss it but in the meantime I think it's safe to say that as long as we are a growth company we will in all likelihood (overweight) the returns to buyback versus dividends.

Ethan Devine: And do have a framework for intrinsic value?

Male: So, I have a framework for intrinsic value. I have a few frameworks we use to kind of (triangulate it).

We do a five-year plan every year – (we offer) that five-year plan, we come up – we try to be conservative -- we come up with what we think the future value of the company is, we discount it, we compare that to what the stock's trading at and that is one way to compare what we think is an undervalued stock.

The other way is we look at multiples versus the group, multiple versus – (when) I say the group, the group's the consumer product groups, direct sellers – it's a handful of other different metrics we look at to determine if we believe our stock is undervalued.

And so those are the things that (go) -- part of the consideration. Cash management is also part of it. When your debt is due, we have a bank deal – like I said currently, that's due next (March), we have a bond deal due in 2019. So there are other considerations too. But relative to intrinsic value, it's probably not much different than your textbook look at intrinsic value.

Ethan Devine: Understood. OK. Thanks very much.

Operator: Our next question's from the line of (Mark Freshour) with (Oak Creek Asset Management).

(Mark Freshour): Hello, guys. Congrats on the quarter.

(Bunch) of my (question's) have been taken but maybe just given the strength that we saw in volume points this quarter and what's guided through the back half of this year, could you just give a little more color, Des, as to what is driving this? Are we just seeing the anniversary of some of the business model changes, are we seeing improved daily consumption? Just any color as to what's driving this re-acceleration of growth and how we can think about sustainable organic growth on a volume basis going forward.

Des Walsh: Sure, Mark, so essentially the picture that we've painted for you two years ago has come to fruition, right? So what we said (was we were) going to go through a period of transition as the members adopted and incorporated the new marketing plan enhancements into their organizations. And that once we came through that that we would actually see a return to (stable combined) with improved metrics, so that's start of one key factor.

The second thing is that obviously what you see is a reflection of growing consumer demand for our products. Herbalife as you know is number one in terms of meal replacement category and that's reflected in terms of the sales that you see today. I think your third factor would be distributor engagement,

right? We have following the successful adoption of marketing plan changes, our distributors are feeling the confidence that comes with that.

That translates to increased engagement, increased activity and you can see that reflected in terms of number of new members coming to the business, attendance of events and so on. And the last thing I would say is that as always our members are hugely entrepreneurial and embracing new ways of bringing our products to market.

So we have different programs that are in effect out there that are driving increased level of and customer focused activity, an ambassador program that you've heard of which is focused on creating more stable customers and introducing them to the business. And then combined with that we have an active member program that has been very successful in terms of encouraging new members to focus on creating a solid stable base of customers.

And then you couple all of those with the sort of overall megatrends in the world, (we're seeing it in obesity) growing, an aging population, rising healthcare costs, rising demand for entrepreneurship. So you put all that together and that's what's reflected in these record second-quarter numbers.

(Mark Freshour): Great. Yes and I echo the previous thought so we look forward to you guys getting back in the market and buying your own stock again because I think it's -- the reaction post all this (news flow) has been fairly (muted). So thanks. Good work.

Des Walsh: Thanks, (Mark)

Operator: And we do have a follow-up question from the line of Tim Ramey, with Pivotal Research Group.

Tim Ramey: Following on Ethan's question, do you believe your stock is undervalued right now, John?

John DeSimone: I am biased but yes I do.

Tim Ramey: (OK).

Male: What a surprise question.

John DeSimone: Look I made it I shouldn't have answered it off-the-cuff; I think you guys are experts at this, you and Wall Street and it's better off if you determine that.

But

Tim Ramey: We'll work on it.

And just another one on China, you mentioned the tough comp and that's true, but as I look back on the sequence from 2Q to 3Q last year, volume points took more of a sequential decline than sales did. And I don't remember what that was about at the time. Your guidance for the 3Q is what I would term muted -- what are you thinking about China on a sequential basis 3Q versus 2Q this year?

Male: Sequential basis -- off the top of my head if I think of comparisons to last year which is more of what comes to mind than sequential comparisons

Tim Ramey: OK, that's fine.

Male: (John, I have) some seasonality. Look, I think China is getting to be more mature; the numbers are big and the growth rates are going to be more in line with the growth rates you see in other markets and not kind of the growth rates we've seen over the last couple of years and it's just a matter of math as the (numbers get big).

Male: Yes. OK.

And then Russia was remarkably strong but I assume you've had a lot of drag from FX on the ruble there; is that a fair statement?

Male: Well that is a fair statement but it's not the driver. So what happened in Russia is we had a price increase in March of 2015, so last year, and that pulled volume into Q1 last year from Russia, so Q2 suffered from that last year (and made) the comparison easier this year in Russia.

Tim Ramey: Got it. OK. Thank you.

Operator: And that's all the questions we have in the queue at this time.

Michael Johnson: Will, listen, this is Michael and I just want to thank you all very much for being on the call today.

And we are obviously very optimistic about the future and some of the good points that have come out of all this journey and it's been a journey through the last few years here in dealing with our government and dealing with all the issues that are -- that they have raised and that we have accomplished in working together very closely with our distributor leadership.

And that's I think the key to our future here is that we have a huge customer base, we have a very inspired and motivated distributor base, we have an energized management team and employee base in the company and the need for our product has never been greater.

Last year we sold the equivalent (canisters) of about 300 million shakes in the United States. We -- (while) that number sounds big -- 300 million -- we think we should be doing way more than that -- way more than that. And so all of our content, people are behind enhancing that shake line, all of our distribution team are behind building a better opportunity for not only the business opportunity members but for customer members and preferred members of Herbalife.

So we're looking forward to a great future. Thanks for being with us and we will report back next quarter. Thank you.

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

END