

FINAL TRANSCRIPT

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HLF - Q3 2005 HERBALIFE LTD Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for join for Herbalife Limited. As a reminder this conference is being recorded. On the call today is Michael O. Johnson, the Company's CEO; Greg Probert, the Company's President and COO; and Rich Goudis, the CFO. At this time I will turn the call over to Rich Goudis, CFO.

Rich Goudis - HERBALIFE LTD - CFO

Good morning, before we start I want to introduce Brett Chapman our General Counsel who will read our forward-looking statement.

Brett Chapman - HERBALIFE LTD - General Counsel

Except for historical information contained herein the matters set forth in this earning's call are forward-looking statements. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws including any projections of earnings, revenue, or other financial items. Any statements of the plans, strategies, and objectives of management for future operations, any statements concerning proposed new services or developments, any statements regarding future economic conditions or performance. Any statements of belief and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words may, will, estimate, intend, continue, believe, expect, or anticipate, and any other similar words.

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Although we believe the expectations reflected in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations as well as any forward-looking statements are subject to change and to inherent risks and uncertainties such as those disclosed on this earnings call. Important factors that could cause our actual results, performance, and achievements or any industry results to differ materially from estimates or projections contained in forward-looking statements include among others the following, our relationships with and our ability to influence the actions of our distributors, adverse publicity associated with our products or network marketing organization, uncertainties relating to the interpretation and enforcement of recently enacted legislation in China governing direct selling, changing consumer preferences and demands, the competitive nature of our business, regulatory matters governing our products including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program. Risks associated with operating internationally including foreign exchange risks. Our dependence on increased penetration of existing markets. Contractual limitations on our ability to expand our business. Our reliance on our information technology infrastructure and outside manufacturers. The sufficiency of trademarks and other intellectual property rights, product concentration, our reliance on our management team. Product liability claims, uncertainties related to the application of transfer pricing and similar tax regulations and taxation relating to our distributors. I will now turn the call over to our company's CEO, Michael Johnson.

Michael Johnson - HERBALIFE LTD - CEO

Thanks Brett, and good morning, everyone. And thank you for joining our call. I will begin today by discussing the highlights of our third quarter. Greg will update you on our five key strategies and our key markets and Rich will run through our financial performance and provide guidance for the remainder of this year and for 2006. On our last call, we spoke about plans that our distributors and employees have been executing to turn around our underperforming markets. As a result of these plans, I'm pleased to tell you that we had a net sales growth in all of our regions for the first time in more than seven years. While this is great news, we remain keenly focused on Japan's growth as one quarter does not signify a trend.

With all regions reporting net sales growth, the result is record sales for our fourth consecutive quarter. Let me repeat that. All regions have reported net sales growth. The result is record sales for our fourth consecutive quarter. On a year-over-year basis, the sales in the fourth quarter grew 13.8%. The rate accelerated to 14.8% in the first quarter of 2005. And 18.7% in the second quarter of 2005. And now our growth rate has expanded to 25.4% in the third quarter of '05 reaching over 400 million in sales for the first time ever.

While we continue to execute numerous initiatives that have been driving our growth throughout the year, our senior management team has gotten together to share operating plans and strategies that are anticipated to continue driving growth throughout 2006. We completed the second round of our five year strategic planning process to identify growth drivers beyond 2006. Our focus will be on penetrating existing markets more deeply. Initiating our regionalization strategy and continuing to segment our markets' distributors and customers. In August, we had a global management conference where 125 of our top executives met to share success stories, challenges, and ideas that we believe have the potential to be leveraged worldwide to stimulate growth and profitability. Immediately following this conference, 34 of our Country managers flew to Mexico and spent three days experiencing our nutrition club party pan concept. They experienced it firsthand, and I can tell you that everyone who made that trip went back to their markets on a mission to help our distributors globalize this wonderful program.

During the third quarter, more than 2000 distributors were trained by other distributors on how to properly run nutrition clubs so they can more deeply penetrate our existing markets. We continued to roll out more products worldwide. We launched ShapeWorks in Brazil, Taiwan, and parts of Eastern Europe. We launched Niteworks in Germany, Japan, Italy, the Netherlands, United Kingdom, Sweden, Austria, Belgium, Ireland, and South Africa. We introduced Liffoff in Canada and NouriFusion in Thailand. We held our annual Chairman's Club retreat in [Cap Antin], France in September. The week long event was focused on driving growth, strengthening our leadership team and creating unparalleled unity among our Chairman's Club members. We recognize our newest member, Michael Palmstierna Hamilton and welcome three other Chairman's Club members who were brought in previously who were attending our retreat for the first time.

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We continue to strengthen our global branding efforts with efforts that support our three Rs. This is a foundation of our company, our recruiting, retailing, and retention. In August, Herbalife was the official nutrition sponsor of the London triathlon, the world's largest triathlon. The event attracted more than 35,000 spectators. 22,000 people sampled our shakes and other products. More than 9,500 people competed including 200 employees and distributors on team Herbalife. More than 8000 Herbalife gift bags were distributed. 500 distributor leads, high quality leads were captured. We received great media coverage throughout the U.K. in all of the news media outlets in the U.K. Our sponsored athlete, Ali Friedman won first place honors in the Junior male sprint category .

As part of our agreement with Anschutz Entertainment Agreement known as AEG Herbalife was the presenting sponsor of the JPMorgan Chase Open at the Home Depot center here in Southern California. More than 56,000 spectators attended the event. More than 6000 leads were collected. More than 100 of our distributors participated in hosting the event providing samples to thousands of attendees. Branding activities received a worldwide boost when wire service photos of top ranked tennis pros playing in front of the Herbalife courtside signage were picked up by international news outlets. In September Herbalife was the official nutrition sponsor of the Nautica Malibu triathlon. This triathlon has tremendous visibility due to celebrity participation. It builds our brand in our largest U.S. market. The event presented numerous branding and publicity opportunities. Highlights of the event aired on FOX sports special on 42 networks reaching more than 82 million viewers and are being rebroadcast regularly. The event met our three hour criteria with distributor involvement. More than 5000 product samples were distributed. More than 2000 competitors participated. Again with 200 different members on team Herbalife. We won the corporate spirit award for raising \$160,000 benefiting the Elizabeth Glaser Pediatric AIDS Foundation.

The Association of Volleyball Professionals. It ended its tour in this quarter. The AVP which is the Association of Volleyball Professionals events associate our brands with healthy lifestyle, active lifestyles for hundreds of thousands of spectators. Both at the events and through broadcast coverage on NBC and FOX TV. It continues to replay regularly on both FOX and ESPN. We are pleased with our AVP association and the relationships we are developing with our sponsored athletes. They have been very rewarding for us. They are all using the products and are vocal in their appreciation. Olympic athlete Elaine Youngs gave us an amazing testimonial with before and after photos that show a noticeably fitter physique. In fact she sports a six pack thanks to Herbalife products. In fact Elaine and her partner Rachel Wacholder beat the defending Olympic champs four times this season. Pro volleyball player Jason Ring gave us the ultimate endorsement. He became a distributor.

As I mentioned earlier, we generated \$401 million in net sales for the third quarter. The highest quarterly net sales in the Company's history. The U.S. posted year-over-year sales growth for the third consecutive quarter. Korea reported net sales growth for the fourth consecutive quarter and it has been removed from our turnaround list. Earlier than we expected Japan reported net sales growth for the first time in 26 quarters which we believe reflects unified and engaged distributor leadership and strong company management coupled with the impact of numerous initiatives in that market. While it's too early to declare a turnaround, we remain focused and are positive about continuing improvement in this market.

Reflecting the strength in our recruiting, the rate of new supervisors increased 24.5% during the quarter. The total number of supervisors increased 8.8% in the third quarter to more than 290,000. We added 22 Presidents team members in the third quarter increasing our total to 819 which is up 11% compared to the third quarter of 2004. We added another member as I mentioned earlier to our prestigious Chairman's Club bringing the total to 26. Greg and I continue building our down lots which is the distributor language for building a great organization. We recruited a new head of the European region and a new head of human resources. Wynne Roberts will head up the European region which includes the Middle East and Africa. Wynne's sales, marketing, and operational expertise will be critical in working with our distributors to stimulate growth in key European markets. Wynne has a longstanding relationship with Greg having worked together with him at DMX music. It makes the integration that much more easy.

Pat Dailey's background in human resources at company's such as Bank One, Hewlett-Packard, and PepsiCo will strengthen all of our human resource disciplines. Pat is focused on organizational development. Building bench strength and succession plans at all levels in our organization. We continued to execute our China strategy during the quarter. We increased our presence

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opening several stores in China and we remain optimistic about the prospects in that market. Greg will elaborate on China in just a few moments.

Last month I had the privilege of being the keynote speaker, being one of the keynote speakers at the World Federation of Direct Selling Association's meeting in London. This the first time Herbalife has ever been asked to speak at this event. This was an opportunity for us to meet with industry leaders and express our company's vision in this important industry forum. We highlighted our commitment to growth and ethical behavior and illustrated the role of our global banding initiatives. The conference attended by all top global direct selling companies reinforced our belief that direct selling is in a robust and healthy channel.

We continue to invest in our businesses and execute our five strategies for growth. We are pleased to see positive movement in all three areas of recruiting, retailing, and retention. We remain committed to driving sales growth, building brand awareness, and producing leading edge science based products. Now, I would like to turn the call over to my business partner, Greg Probert, our President and Chief Operating Officer for an update on our key markets and strategic initiatives for the balance of 2005 and into 2006.

Greg Probert - HERBALIFE LTD - President, COO

Thank you, Michael. Good morning and good afternoon to everybody. I'm going to begin with an update of our five key strategies followed by an update on our focus markets as the list has changed from our last earnings call. Our five key strategies that we consider vital to the long-term growth prospects of the Company are our distributor strategy, our customer strategy, our product strategy, our China strategy, and finally our infrastructure strategy. As I've said in prior calls we believe that our distributor strategy continues to be the single biggest catalyst for our top and bottom line growth over the next several years. Distributor are our number one priority. Our management team remains distributor focused and we prioritize our investments to enhance the ability of our distributors to improve their recruiting efforts, increase their ability to retail our products and extend the life cycle distributors through retention initiatives.

By now, many of you are familiar with the following distributor initiatives developed to support recruiting, retailing, and retention. The Nutrition Club party plan concept, the total plan are distributor portal, myherbalife.com, BizWorks, Gen H and event sponsorships. Let me provide an update on each of these. Nutrition Clubs represent the most stable growth initiative in the distributor strategy. The concept strongly supports recruiting, retailing, and retention. Distributors have exported the party plan concept from Mexico to 22 additional markets. This concept is taking hold in countries like the U.S., Jamaica, Indonesia, South Africa, and throughout Europe. We estimate that our distributors are operating nearly 19,000 clubs worldwide. As Michael mentioned earlier, we flew 34 Country managers to Mexico to experience Nutrition Clubs firsthand with the goal they would promote the concept in their own countries. Our distributors are creating multiple variations of these clubs to cultivate this concept to their local markets. We have significantly increased our company sponsored training events between Nutrition Club concept during the quarter.

Our distributors train thousands of other distributors in cities like Los Angeles, Chicago, Budapest, Prague, Warsaw, Rega, and Singapore. The attendance and interest level from distributors is high which is an encouraging signal of its acceptance outside of Mexico. We remain optimistic that our distributors will implement Nutrition Clubs in additional territories in the upcoming quarters. Total planned method of operation has gained increased popularity following the launch of NouriFusion skin line last April. It provides our distributors with a simple replicatable daily method of operation generating leads at a very low cost. The total plan supports recruiting and retailing and because of its simplicity it retains distributors more effectively. In Japan, the popularity of the Total Plan coupled with the acceptance of NouriFusion has created the need for an international business pack that contains these skin care products. In addition to the NouriFusion IBPs we are supporting the worldwide rollout and education of the Total Plan with standardized training materials.

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Enhancements to myherbalife.com website in the U.S. continued during the quarter. We launched a Spanish language version to myherbalife.com to increase utilization by our latino U.S. distributors. In fact Latinos are the fastest growing segment of our U.S. business and this distributor facing website is intended to support all three Rs for this growing segment of our distributor base. During the first few months of use in October, total visits to the site increased 19% versus September of 2005 and 67% versus October of last year. On-line ordering continues its upward adoption trend. Approximately one-third of all U.S. orders are now processed online. An improved site is being developed for a Korean market. during the fourth quarter. And additional markets roll out in 2006.

Our BizWorks distributor tools introduced in August. It provides our distributors with realtime, down line reporting capabilities and professional websites with standardized branding elements. The tool supports all three Rs by providing a mechanism for recruiting new distributors and retailing our products. Distributors custom websites offered by BizWorks increases retention by simplifying communication for our distributors with an effective contact management system. The feedback from distributors has been very positive. BizWorks realtime reporting tools are available globally. The BizWorks plus which also includes distributor websites is available in the U.S. and is planned to roll out in to other markets throughout 2006.

Generation H our under 30 segment of our distributor base continues to be a key initiative. These distributors have developed age appropriate sales materials and identified recruiting venues to attract younger people into our business. In Japan, for example, distributors run monthly Gen H meetings that distributors must qualify to attend. The population has doubled in size for five consecutive months and we expect this group to continue to grow. In the U.S., our top Gen H distributors hold weekly strategy and planning calls to identify best practices and share experiences from coast-to-coast about planning special events and hosting training calls. In the Netherlands we had a Gen H event that attracted over 3000 people which I will expand upon in a moment. General H is an exciting group and we will continue to invest in tools like BizWorks, products like Liftoff and sponsorships like the AVP to support the technically savvy, healthy lifestyles of this under 30 segment.

In addition to Gen H, we maintain a key focus in Latino and stay-at-home mom segments because we believe they offer unique growth opportunities for our company. Our product development group is currently evaluating a product line to help recruit the state at home mom segment. Additionally Spanish language sales materials, events, and websites have all been designed to meet the needs of the Latino market. For example, at our recent leadership conference held in Anaheim California we conducted a dual venue event one in Spanish and one in English to provide this important segment of our distributor organization the same level of training and motivation as a non-Spanish speaking segment.

We also expanded our branding efforts in the third quarter which we believe is critical to the ongoing success of increasing the retailing of our products. Facilitating the recruiting of new distributors and more importantly in the long term to support our direct to consumer initiative. In July, we were named the official nutritional sponsor of the London triathlon, the PR coverage was impressive with a print audience of 4 million people. A post event survey revealed that Herbalife achieved 94% awareness among attendees of this event. As a result of partnership with AG announced in August, our brands have been showcased with prominent signs at the Home Depot center in California which host events such as the JPMorgan Chase Open tennis tournament, the X-games, and teams like the L.A. galaxy. Through this relationship our brand has reached hundreds of thousands of consumers. Our distributors sample our products while collecting leads for prospective customers and distributors. In addition to naming rights at the events, AG partnership provides us with access to the U.S. venues where we can host various distributor events. We expect to utilize that benefit in 2006.

In September Herbalife was named the official nutrition sponsor of the Nautica Malibu triathlon. Again, over 200 team Herbalife participants comprised of both distributors and employees participated in this event. Whether they were wearing their team Herbalife active wear, working the Herbalife brand at tent, distributing samples, or collecting leads, our distributors presence was noticed.

The 2005 AVP volleyball tour concluded during the quarter. We look forward to leveraging this relationship in future years and have extended our agreement with this organization through 2007. Our recent announcement of our sponsorship of the Vodafone beach volleyball tour, Australia's premier beach volleyball series reflects our confidence that we can repeat this type

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of success in markets outside the United States. These initiatives associate our brands with nutrition, sports, health, fitness, and community service activities. In addition, they provide venues for our distributors to sample product and recruit new distributors and customers. We expect the long-term benefit will be an enhanced brand image which will create a sense of pride amongst our distributors.

Over the past two years we tested an additional method of qualityification for our distributors to maintain supervisor status. We called it the 4K requalification program. During the test period we retained approximately 30,000 supervisors to earning more than 50 million incremental volume points. Due to the success of this test last month we officially amended our requalification requirements to include this method. Exporting of standardizing Nutrition Clubs in the Total Plan, improving and upgrading our distributor tools such as myherbalife.com and BizWorks. Targeting specific market segments, modifying our distributor compensation plan and expanding our branding efforts are intended to empower and excite distributors, ultimately attracting more distributors who stay longer in the business which drives top and bottom line growth.

Now let me move on to our customer strategy which is a longer term initiative to accelerate revenue and profit. Creating a larger sustainable and predictable consumer base is important to building a stronger core business for our distributors and the Company. During the quarter, we entered the development phase for an integrated directive to consumer business platform that allowed customers to order directly from the Company while preserving the financial and business relationship with our distributors. Our distributors are very excited about these initiatives. Plans to test our eCommerce capabilities with a lift off direct to consumer mini site in the fourth quarter of 2005 remain on schedule.

We plan on expanding the test in the first half of 2006 with a fully functional direct to consumer site in the Canadian market. Testing a concept in Canada will provide useful data and distributor feedback to ensure successful roll out in the U.S. market which is targeted for the second half of 2006. Leveraging the technology and automated infrastructure of our company is expected to improve the ability of our distributors to retailer products while increasing their productivity. The global rollout of this initiative will follow our market by market rollout of Oracle over the next two years.

Now let me move on to our new product strategy which is important to support both our distributor and customer strategies. As Michael mentioned earlier our new product continued to roll out globally. Liftoff which launched in the U.S. at the 25th anniversary extravaganza in April generated 5.7 million volume points in the third quarter. This excellent sampling product is becoming popular among the Gen H crowd. The product launch is supported with the AVP pro beach volleyball tour sponsorship which concluded in September. Liftoff was successfully introduced in the Canadian market in September and will continue its global roll out throughout 2006 and into 2007. NouriFusion our new vitamin based skin care line launched into 23 markets in April and generated 13.3 million volume points in the third quarter. This past quarter NouriFusion was introduced in Thailand. This product line supports a total plan method of operation and has stimulated growth in our outer nutrition products which grew 31% versus the third quarter of last year. We expect the roll out into other key markets to continue throughout 2006.

At our Herbalife university conference held in Anaheim, California, last month we launched a comprehensive heart health line. The line contains products that were developed to provide superior nutrition for cardiovascular systems such as our popular Niteworks nitric oxide product which supports overall vascular and circulatory health. Tri-shield which contains a proprietary formula with 100% pure Neptune Krill oil derived from Krill, tiny Antarctic crustaceans, this product provides high potency Omega 3 fatty acids, vasolipids, and antioxidants. Reformulated herbal lifeline, which is rich on Omega 3 fatty acids, core complex designed to target four key indicators of heart health, cholesterol triglycerites, homeocystenes, and oxidant stress, and mega garlic which supports healthy circulation. This line was developed by our team of scientists with the assistance of, and endorsed by Nobel laureate Dr. Lou Ignarro. Many of our distributors were part of our test group and shared their product testimonials in Anaheim.

Our new product group has been working very closely with the Dr. David Eiber, Dr. Lou Ignarro, Dr. Luigi Gratton, and our scientist staff now headed by Dr. Steve Henig on new products for 2006 and 2007. Fitness, endurance, and children product lines are being developed to target additional consumer segments. Additionally, regional and global products are being

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evaluated to meet the needs of local markets and finally line extensions are also under development to upgrade and strengthen efficacy, convenience and taste of our existing product lines.

Now let me move to our China strategy. We remain committed to executing our China plan in a efficient and planned manner. The official regulations have been published by the Chinese government which allow for direct selling license applications starting December 1, 2005. Our China management team continue to build our presence attracting distributors licensing products and acquiring real estate locations. We opened seven stores in five provinces Shenzhou, Shandong, Busan, Langding, and Shenzhen. We are planning to open five to ten stores and two additional provinces by the end of 2005. We developed a unique marketing plan in a collaborative effort with our distributor leadership that's compliant with a new direct selling rules. We continued to increase the capability of our manufacturing plant in Suzhou with additional investments expected in the fourth quarter and throughout 2006. We expect 2006 to be another investment year in China as we plan to expand our presence to approximately 20 provinces. In 2005, we anticipate an EBIT loss of 4 to \$5 million in 2006, we currently anticipate a 9 to 10 million EBIT loss as we build out our stores and expand our infrastructure to support future growth in China. We expect capital investments in 2005 and 2006 to be approximately \$15 million. We remain very conservative in our outlook for China as we gain better understanding of the regulations and build a business to compete effectively in this marketplace.

And finally, our infrastructure strategy. Our infrastructure encompasses our investment systems, technology, facility, and our people. The rollout of Oracle globally is proceeding as planned. Our supply chain management and our distributor management modules are live globally. Our order management module continues to roll out in countries such as Canada and the U.S. We expect the implementation of the order management and general ledger modules of Oracle will take us into 2008. We are continuing the implementation of micro strategy our business intelligence software. This software will provide insight and statistical data related to distributor, product, and other operational metrics that will help us better manage resource, target our promotions, and better understand our distributor's order patterns. This data will be standardized and pushed out to the regions enabling global staff members to access consistent data and common metrics with standard definitions in a realtime environment. We will be training over 300 employees worldwide by the end of first quarter 2006. As I stated earlier we continue to invest in our web presence, our business tools for distributors, our direct to consumer platform, and our expansion of our business in China.

In addition to systems we are also investing in our people. We completed people, voices, and views an organizational assessment of employee satisfaction in the areas of leadership, communication, and training. Our organizational development team aggressively rolled out leadership training for our employees and they plan on tracking our progress quarterly. In addition, we have strengthened our relationship with the Marshall school of business at the University of Southern California by sponsoring global consulting challenge. In addition to having some of the brightest young minds from schools like Wharton, Yale, Emory, and London business school work on a specific corporate project, this relationships complements the branding initiatives targeted at Generation H. For the first time in the Company's history our name will be amongst companies like British Petroleum Cingular wireless, and Intel in an educational forum. These initiatives are designed to continue building strength in all levels of our management team while creating a pipeline of new entrants from top institutions worldwide. To support infrastructure we expect to invest approximately 30 to \$35 million in capital in 2005 and approximately 35 to \$45 million in 2006.

Now let me give you an update on our key markets. During the IPO we segmented our markets into two categories. Our core markets and our focus markets. Our core markets comprise 40 countries and are defined as countries that are open for at least five years. In the third quarter this group of countries comprised approximately 40% of our sales and increased 14% versus the same period of 2004. We believe one of Herbalife's competitive advantages is that we are geographically diversified. For example, in the third quarter Europe contribute 33% of sales. The Americas contribute 45% of sales. And Asia including Japan contribute 22% of sales. As China sales grow these percentages will become even more balanced.

This geographic portfolio minimizes the impact of volatility from any one country or region. We believe this is important investment criteria. Periodically countries in this group will grow or decline but the balancing of geographic allows our management to focus on countries that are materially impacting the business. Our focus markets have been additionally classified as both high flyers or turn around. With four quarters of growth on a year to year basis Korea is now being removed

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from our turn around list and we're adding Germany and the Netherlands to highlight the fact that these markets will be receiving increased focus from management and incremental investment. The U.S. and Japan remain on the list. Mexico Brazil and Taiwan retain high flyer status.

Now let me go country by country. In Mexico our number two market based on volume points, volume was up 100% in the third quarter versus the same period of 2004. In fact, in October, Mexico became our number one market in the world in terms of volume points. At this rate of growth, Mexico may surpass the U.S. as the number one market during the entire fourth quarter. We attribute this growth to the expansion of our party plan concept Nutrition Clubs along with the strong distributor leadership that's unified and engaged in strong Country management. In Brazil, our number three market, volume increased by over 36% in the third quarter versus the same period of 2004. We attribute this strong growth to the expansion of total plan, strong Country distributor leadership, a highly effective Country management team, and a solid product portfolio. Taiwan, our number four market, returned to double digit growth as expected. Volume points increased by 27% in the third quarter versus 2004. Over the next year we will be implementing new events and promotions to help minimize the potential adverse impact in Taiwan of our distributors moving to build businesses in China.

While we enjoy strong growth in these three large markets remain very focused and committed to turning around and improving performance in the U.S., Japan, Germany, and the Netherlands. In the U.S., our number one market, volume points in the third quarter increased 17% versus the same period of 2004. This represents a third consecutive quarter growth in the U.S. Therefore we will continue to make disproportionate investments in an effort to sustain this positive trend. Total supervisors in the U.S. were up 3% year-over-year in the third quarter. This represents the second consecutive quarter of year-over-year supervisor growth. The rate of new supervisors in the U.S. continues to accelerate up 25% in the third quarter.

Of our top ten metro areas, nine are up versus the third quarter of 2004 and of our top 25 metro areas, 21 are up versus the third quarter of 2004. By comparison, a year ago only three of our top ten metro markets were up and of the top 25, only four markets reporting sales growth versus the third quarter of 2003. We believe the growth initiatives being deployed in the U.S. are gaining traction and our distributors are focused in the three Rs with the goal of sustaining this momentum. In 2006 we will continue executing these initiatives and we will also open several satellite sales center similar to the one opened in Dallas in March of 2005.

Now let's turn to Japan. Volume points in the third quarter increased 11% representing the first quarter of growth in 26 quarters. These rules are ahead of our expectations and indicate to us that the turnaround plan that began in 2004 are gaining traction. We have been investing in Japan market with new management, branding initiatives such as the Toure tennis sponsorships, a corporate office relocation, new product launches, new medical and scientific advisory board members, extended call center hours, and ISP service, and a high energy Gen H plan. In addition, we believe the distributor leadership in this market is fully engaged and unified.

Similar to the U.S. we believe that Japanese market continues to be a viable direct selling market and we remain committed to making the necessary investments with the goal of sustaining year-over-year growth. Although one quarter does not declare a turnaround we remain very encouraged with the results this past quarter and are very proud of our distributor leadership in Country management. In Germany, volume points in the third quarter were down 15.5% versus 2004. In the second quarter we upgraded Country management by hiring Patrick Hoffman who provides a comprehensive sales, marketing, and finance, and management style to this market.

We launched Niteworks, a summer spectacular held in July with over 4000 distributors in attendance. We are working to remove websites that are tarnishing the Herbalife brand in this market. Country Management is working closely with local distributor leadership to implement concepts like Generation H, over 50 segment and enhanced brand imaging. In 2006 we will be opening several walk in sales center to extend the reach of our company, enhance branding activities and support our distributors efforts with recruiting and retailing activities. Similar to the improvements we made in Korea, the U.S. and Japan, we will continue to focus on Germany to stem the declines over the next 12 months.

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In the Netherlands volume points in third quarter were down 13.6% versus the same period of 2004. Similar to U.S., a year ago, we hired a Country manager dedicated to this country for the first time as it was previously managed from the U.K. office. Hans Mulder joined our team in July and is taking an integrated approach with distributor leadership to turn this market around. For example, in July, the country hosted a summer spectacular in Amsterdam with over 2000 distributors in attendance. They launched Niteworks at this event and introduced the concept of Generation H to reinforce the importance of the under 30 segment in the marketplace.

The team has formed a Gen H S&P group made up of 18 Gen H distributors, Chairmen's Club member [Baya Boz] and President's team member Mark Van Noonon. This team of distributors working with local Country management developed a successful launch of Generation H which took place October 15, at the Heineken Music Hall. This event attracted over 3000 people in the Generation H segment. Guests enjoyed an evening of dancing to the music played by their favorite local DJs. Baya Boz pitched the business opportunity by highlighting a lifestyle a successful distributor can achieve which is very important the Gen H segment. And a video message from Michael Johnson was played to share the vision, mission, and values of our company. We remain committed to sustaining the growth in the U.S. and Japan and returning growth to both Germany and the Netherlands. Now let me turn it over to Rich for a review of our financial performance and guidance for the balance of 2005 and 2006.

Rich Goudis - HERBALIFE LTD - CFO

Thanks, Greg. Let me walk you through the financial statements that were contained in our press release yesterday and provide financial guidance for the fourth quarter of 2005 and for the first time full year 2006. During the section, all references to sales are net sales and volume is Herbalife volume points. Additionally, the 10-Q was filed last evening. Net sales of 401 million in the third quarter were up 25.4% versus the third quarter of 2004 reflecting year-over-year growth and all regions for the first time in almost seven years. Net sales in the Americas which comprised 45.1% of our sales were \$180.7 million reflecting an increase of 55.7% versus the third quarter of 2004. Without the impact of FX, sales would have been up 46.3%. Net sales in the U.S. were up 15.1% slightly ahead of our expectations and the growth rate expanded from the growth rate of 12.8% in the second quarter and 4.4% in the first quarter. Additionally, net sales in Mexico were up 132.2% and Brazil was up 71.2%. These two countries continue to expand rapidly due to the success of the Nutrition Clubs in Mexico and the total plant in Brazil coupled with unified distributor leadership and strong Country management.

On a year to date basis net sales for the Americas were 488.1 million, an increase of 42.1% versus the same period of 2004 primarily driven by the strong growth in Mexico up 111.9%. Brazil up 65.4%. And the turnaround in the United States up 10.8% versus the same nine month period of 2004. Excluding currency fluctuations year to date net sales would have increased 36.6%. European net sales of 131.2 million which comprised 32.7% of our sales increased 2.8% from 127.6 million in the third quarter of 2004. Without the impact of FX, sales would have increased 2.3%. While performance in Europe has essentially been flat this year, we're accompanying strong year-over-year growth rates of 11.7% in the third quarter of 2004, versus 2003 and 33% in the third quarter of 2003 versus 2002.

It's important to note that the sales performance varies throughout the European portfolio of 34 markets. For example, within our top six countries two were down double digits and four were up double digits versus the same period of '04. Germany and the Netherlands, as Greg mentioned, were down 14.7% and 15.3% respectively versus the third quarter of '04. And also as Greg mentioned have been added to our turnaround list. Italy, Spain, Turkey, and France were up 14.4, 17.1, 19.6, and 28.7% respectively over the same period of '04. And South Africa which was up 72.2% during the third quarter may soon become one of our top five European markets. Similar to what we achieved in Korea, the U.S., and Japan we are focusing our resources on improving Germany and the Netherlands to return these countries to year-over-year growth. We have accelerated product development initiatives and hired several new general managers. Additionally Greg and Wynne Roberts our new regional head of Europe, the Middle East, and Africa just completed a six city tour meeting with top distributors and company employees to initiate recovery plans and with our world team school in Budapest next week where we expect over 8000 attendees we remain confident that these markets will improve during the next 12 months.

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On a year-to-date basis in Europe net sales increased 4% versus the same nine months of '04 to 417.6 million. Excluding currency fluctuations as expected, year to date net sales have increased just about 1%. Net sales in Asia Pac which accounted for 16.2% of our sales were 65.1 million, an increase of 21.2% versus the third quarter of '04. Taiwan was up 34.1% and South Korea was up 67% versus the same period in 2004. Excluding the impact of FX, sales for the region would have increased 14.7% versus the same period last year. China is included in these results generating just over 700,000 in sales. Remember, we did just over \$1.2 million in net sales in each of the last three years in China.

As we have conveyed all year we believe China is an opportunity in our future and we are taking what we believe to be the necessary and prudent steps to invest in and capitalize upon this emerging market opportunity. On a year-to-date basis, net sales were 180.9 million in the region, an increase of 21.4% over the comparative period in '04. Excluding the impact of foreign exchange the region was up 14.9% versus the same nine months last year. Sales in Japan which represent 6% of our company sales were 24 million up 7% from the 22.4 million in the third quarter of '04. This year-over-year growth was one quarter ahead of our expectation and guidance to investors. As Greg and Michael mentioned, these results reflect the first year-over-year growth rate from Japan in 26 quarters. Excluding the impact of FX, sales in Japan would have increased 8.2% compared to last year. As Greg just mentioned, one quarter doesn't create a trend but keep in mind that over the past year we have slowly stemmed the decline rate that reached year-over-year growth rates of negative 20% in the second quarter of last year and have now experienced positive year-over-year growth for the past four months.

On a year-to-date basis net sales in Japan were 71.1 million down 3.8%. Excluding the impacts of currency fluctuations Japan was down 4.9%. Gross profit in the third quarter was 321.5 million or 80.2% of sales. The year-over-year improvement of 174 basis points primarily reflects the prior year impact of introduction of the lower margin shape scan distributor tool and nonrecurring E&O charges for slow moving inventory in '04. On a year-to-date basis gross profit was 925.1 million or 79.9% of sales which is 45 basis points better than the 79.5% reported in the same nine months period in '04. Again, the improvement primarily reflects the prior year impact of the introduction of the lower margin shape scan distributor tool and nonrecurring E&O expense for slow moving inventory last year.

Royalty expense in the third quarter of 138.6 million or 34.6% of sales. This figure includes a one time non-cash adjustment of 4 million due to a change in estimate for the provision of royalty receivables. Excluding the one time adjustment royalty expense in the quarter would have been 142.6 million or 35.6% of sales which is in line with our expectations. On a year to date basis royalty expense was 410.9 million or 35.5% of sales essentially flat compared with the same nine months in '04 reflecting the global nature of our marketing plan.

Move down to SG&A, of 121.6 million, was up 18.8 million versus last year or 18.3%. In line with our expectations when compared to the 102.8 million reported in the third quarter last year. The absolute dollar spending increase reflects 8.2 million of labor benefits associated with normal merit increases, new hires, and increased bonus expense due to the Company's '05 financial performance. Additionally, 8.5 million in increases in sales events and promotions. That expense is primarily associated with the ongoing World Cup promotion. A 1.5 million increase in professional fees offset by lower amortization of 3.1 -- 3.4 million and 1.4 million lower expense associated with the elimination in of the pre IPO sponsor related fees.

As percent of sales SG&A improved 181 basis points to 30.3% of sales due to the financial leverage inherent in our operating model as we experience stronger than expected sales throughout the quarter. On year-to-date basis SG&A expense improved 244 basis points to 30.2% of sales. In absolute dollar spending, SG&A expense of 349.4 million was up 10.6% versus the 315.8 million in '04 reflecting 22.2 million of labor and benefits, increased 11.7 million in sales events and promotion due to the timing of events and the World Cup promotion. \$4.9 million increase in professional fees, \$3.8 million in increased occupancy costs associated with our new China properties and the relocation of our Japanese corporate office. Partially offset by 3.4 million of lower amortization and 4.9 million due to the elimination of the sponsor fees related to our IPO.

Interest expense in the third quarter was 8 million a decrease of 5.6 million compared to the 13.6 million reported in the third quarter of '04 reflecting the benefits of the IPO recap. Interest expense was higher than expected during the quarter due to the expense associated with the additional prepayment of our debt as well as cost related to the renegotiation of bank covenants

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to our term loan allowing us to buy back bonds. On a year-to-date basis interest expense was 37.6 million down 17.6 million versus the 55.2 million reported for the same nine months last year. Excluding the recap expenses of 14.2 million in the first quarter of '05 and the 15.4 million in '04, interest expense was 23.4 million a decrease of 16.4 million compared to the 39.8 in the same period of '04. Again, reflecting the benefits from the IPO recapitalization.

During the quarter, we prepaid 45 million of our 200 million term loan. Our outstanding debt is now 284 million. Comprised of 165 million of which is our 9.5% notes due in June 2011. And \$118 million balance on our term loan tied to LIBOR plus 175 basis points. Remember, our term loan is hedged with an interest rate swap minimizing the exposure of increasing rates. As I mentioned earlier, we renegotiated the covenants of our term loan during the quarter to allow us to buy back up to \$50 million of our bonds, however, during the quarter no buy-back of notes took place. We recently received an upgrade from Moody's indicating the positive reaction to our company's ability to pay down debt coupled with the improved profitability of the business.

Our effective tax rate in the quarter was 49.1%. Which reflects a change in the estimate within our global tax strategy due to stronger than expected revenue growth during the past several quarters coupled with management's outlook that a mid teens revenue growth rate will continue throughout 2006. This increased profitability in '05 and projected for '06 had a significant impact on the Company's worldwide transfer pricing and tax structure. Resulting in adjustment in the third quarter of our full year '05 effective tax rate. For the full year, we believe that the rate will be somewhere between 41 and 42%. Net income on a reported basis was 27.1 million in the quarter and earnings per share was \$0.37 compared to net income of 11.5 million in the third quarter of '04. Excluding the non-cash royalty expense adjustment of 4 million in the third quarter of this year net income was 24.8 million or \$0.34 per share compared to earnings of \$0.21 in the third quarter of '04.

For the nine month period reported net income was 63.2 million and EPS was \$0.87. This compares favorably to the earnings per share of \$0.42 reported for the same nine month period in '04. Again, excluding the recap charges in the first quarters of '04 and '05 the non-cash tax charge of \$5.5 million for moving China within our global tax structure in the second quarter of '05 and the 4 million non-cash royalty expense adjustment that we took in the third quarter this year our EPS year to date was \$1.11 versus the nine months last year of \$0.70.

Turning to the balance sheet, the Company ended the quarter with 105.2 million in cash which reflects strong financial performance less the 49 million prepayment of debt during the quarter. Inventory of 86.4 million increased \$8.8 million associated with the need to support our double digit sales growth, the expansion, and the build for China. The annual inventory build in preparation of slow border crossing due to the holidays in most of Latin America and to support the multiple product roll outs globally. From an efficiency standpoint inventory turns was 3.7 versus 3.5 turns at the end of the third quarter last year. CapEx of 9.5 million in the quarter reflects our ongoing investment in infrastructure that Greg mentioned earlier. We invested approximately 7.2 million in information technology including Oracle, the Internet and our IT infrastructure. We also invested in facilities primarily related to China. On a year-to-date basis we invested 22.3 million in capital. Our plan investments in the fourth quarter include development of the direct to consumer platform, the ongoing implementation of Oracle and the expansion within China.

Now let's look to guidance for the fourth quarter and for the full year of '06. Our EPS guidance for the full year 2005 excludes the IPO claw back expenses of 14.2 million that we reported in the first quarter. The 5.5 million non-cash tax charge associated with our China subsidiary moving into our tax strategy in the second quarter and the royalty expense of 4 million in the third quarter. As a result of the stronger than expected earnings per share performance in the third quarter and anticipated double digit sales growth for the fourth quarter we are raising our fourth quarter EPS guidance per share and full year earnings per share. As we increase our comfort level with the predictability of our sales trends we are raising our top line growth rate and providing the following guidance that was included in the press release. Net sales growth during the quarter versus 2004 will be somewhere between 16 and 18% and for the full year between 18.7 and 19.2%. Gross profit is a percent of sales for the quarter 79.6 to 80%. And for the full year 79.8 to 79.9%. Royalty expense as a percent of sales for the quarter 35.5% to 36%. And for the full year 35.7 to 35.9%. SG&A as a percent of sales in the quarter 29.4 to 30.9% of sales. 30 to 34% of sales for the full year. Operating income as a percent of sales in the quarter 12.8 to 15.1% and for the full year 13.6 to 14.2% of sales. Interest expense

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in terms of dollars in millions in the fourth quarter between 6 and \$6.5 million and for the full year between 29.4 and \$29.9 million.

As I mentioned earlier, the effective tax rate for the quarter will be between 41 and 42% of sales and the same for the full year 2005. The effective tax rate for the fourth quarter and the full year '05 excludes the IPO recap expenses of 14.2 million incurred in the first quarter and the impact of the \$5.5 million non-cash charges associated with the restructuring and the ownership of the Company's China sub within the global organization tax strategy as reflected in the second quarter. The new effective tax rate reflects the adjustments we made in the third quarter to our overall tax strategy. That leads to an EPS in the range of \$0.39 to \$0.41 in the fourth quarter and \$1.50 to \$1.52 for the full year. And CapEx 8 million to 13 million in the fourth quarter and 30 to 35 million for the full year 2005.

Now for the first time we will provide guidance for 2006 and again based upon the strength of our performance to date and management's outlook for the mid teens top line growth throughout 2006 the Company is providing the following guidance. We are raising our net sales growth rate to 14 to 18% versus 2005. Gross profit as a percent of sales will be between 79.5 and 80.5% of sales. Royalty expense as a percent of sales will be between 35.5 and 36%. SG&A as a percent of sales will be between 30.2 and 31.8%. Operating income as a percent of sales will be between 13 and 14% of sales. Interest expense in millions of dollars will be 20 to 24 million. Our effective tax rate we believe will improve a point to 2 points next year lowering down to 39.5 to 40.5% of sales. We anticipate the tax rate improvement of 1 to 2 points reflecting the Company's tax strategy that was put in place earlier in '05 and the adjustments -- incorporating the adjustments we made in the third quarter. Leading to an EPS in the range of \$1.80 to \$1.85. And finally CapEx in the range of 35 to \$45 million related to the infrastructure support that Greg mentioned earlier. That concludes our financial recap and third quarter guidance for the fourth quarter and for the full year of '05 and '06. At this point we would like to open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] The first question is from Scott Van Winkle from Adams Harkness.

Scott Van Winkle - Adams Harkness - Analyst

I'll start with the easy one, Rich. Back in the tax, can you tell me again what it is you are estimating beforehand and anticipating and as a result earnings were higher and therefore a higher tax rate.

Rich Goudis - HERBALIFE LTD - CFO

Well, Scott, as we mentioned, I think when we started the year we guided the Street to about a 43% effective tax rate. When we got through the first quarter, due to the profitability from different markets and regions that rate moved to 37%. But as we continue to accelerate our top growth throughout the first three quarters, and upon the conclusion of our five year plan where we started to see clearly of a mid teens growth rate at least through 2006, we incorporated that back into the valuation of our IP that we sold to a Swiss company in the first quarter and therefore the rate popped up. Again, based on the methodology of the tax charges we put in place we believe that that effective rate should improve a point to 2 points over the next several years through the IP buying period which ends in 2008.

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Scott Van Winkle - *Adams Harkness - Analyst*

All right. On the amending of the supervisor requalification requirements, how many ways are there now for a supervisor to qualify -- or a distributor to qualify as a supervisor?

Rich Goudis - *HERBALIFE LTD - CFO*

There are two ways to initially qualify, there's 4000 volume points in a month or 2,500 volume points in two successive months. In addition for the requalification after the first year, we've added a 4000 requalification I talked about in my comments which is if you do a cumulative 4000 volume points over the 12 month requalification period which runs from February 1, to about a year to January 31, of the next year, you can keep your 50% buying discount but you lose your down line.

Scott Van Winkle - *Adams Harkness - Analyst*

Okay. And then the following year if you hit the higher level you are back into the supervisor with a down line.

Rich Goudis - *HERBALIFE LTD - CFO*

Correct.

Scott Van Winkle - *Adams Harkness - Analyst*

And do you lose your kind of position in the down line?

Rich Goudis - *HERBALIFE LTD - CFO*

Yes, you do. You start over, basically. This is really geared towards our retailers who generally don't have down lines. They are primarily retail distributors so what's most important to them is staying in the business and maintaining their 50% buying privileges.

Scott Van Winkle - *Adams Harkness - Analyst*

Okay. And on the direct to consumer that you talked about, what are the economics for the distributors for someone that just types in, in the Liftoff or something online?

Rich Goudis - *HERBALIFE LTD - CFO*

Well, there is a couple of different -- first of all, all the customers will be attached to a distributor. So you have to put in a distributor number if you are sent to the website by a distributor you just type in that distributor's ID number. If you come in directly to the website, and you are not associated with a distributor you will be assigned to a distributor who will follow-up with you and provide the personalization, the cross selling, the understanding of the product, and all the things that our distributors do very, very well. The economics are the same as they are now. What we are still working on is will we charge the distributor some type of administration fee for processing all the back office, taking the order, processing a payment, the shipping, and all of that, that's still open right now.

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Scott Van Winkle - *Adams Harkness - Analyst*

And did you say you opened seven stores in China?

Rich Goudis - *HERBALIFE LTD - CFO*

Yes.

Scott Van Winkle - *Adams Harkness - Analyst*

And that is in the last month or month and a half?

Rich Goudis - *HERBALIFE LTD - CFO*

Last about six weeks, about.

Scott Van Winkle - *Adams Harkness - Analyst*

And what was the target again by the end of the year?

Rich Goudis - *HERBALIFE LTD - CFO*

I think we said by the end of 2006, Scott.

Scott Van Winkle - *Adams Harkness - Analyst*

Okay. And as for Mexico, you mentioned it might be the largest market of this quarter how large do you think the opportunity is in Mexico and is all of this being driven by the Nutrition Clubs, two-thirds, three-quarters, that type of thing?

Rich Goudis - *HERBALIFE LTD - CFO*

Scott, I think that the right answer is we don't know the depth of this penetration. As we continue to be conservative in our outlook for Mexico, Mexico continues to surge right through our conservative numbers. And as people from headquarters and the regional offices go out to the marketplaces we are seeing Nutrition Clubs popping up in extremely rural markets. And our belief is that we've really just tapped the surface in some the larger metro markets and cities in Mexico. We believe that this growth rate, at least in the near term is very sustainable. We have been very conservative in our guidance in '06. We have in the 30% kind of growth rate is what's embedded in our guidance for Mexico. But last year we assumed that in our guidance to Mexico was going to grow in the 20s. With our business especially with Nutrition Clubs we don't have the visibility that we would like if we were running, for example, retail stores. So we just make sure that we continue to build our infrastructure and we support the distributors rolling these clubs out.

Scott Van Winkle - *Adams Harkness - Analyst*

Oh, one other question. You mentioned Germany being added to the turnaround list. It looked like the rate of decline decelerated quite a bit in Germany. Was there any driver behind that? Were you already making some efforts to turn that market around?

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Rich Goudis - HERBALIFE LTD - CFO

Yes, I think we put a turnaround plan in probably I think last quarter or the quarter before. So again I think some of the things we mentioned we hired a new Country manager, Patrick Hoffman, we've launched Niteworks in the market. We have done a couple of distributor initiatives such as Generation H. We are doing what we call the rising star program which is identify distributors at all levels of the organization from supervisor up to Pres. team that are growing their businesses and making sure that they get on stage and train our other distributors and give testimonials and motivation. We start the web cleaning process in Germany. I think a lot of those things are in place and you start to see a little bit of traction in the quarter where the rate of decline I think was almost half from the prior quarter.

Greg Probert - HERBALIFE LTD - President, COO

Scott, I think what's important there is we saw this coming and we kind of started to indicate it early in the year, we saw it really in the fourth quarter last year and we moved on it a lot faster so that that decline wouldn't be as dramatic as some of the other countries we had.

Michael Johnson - HERBALIFE LTD - CEO

Greg is being a little humble here. This is Michael. He was in Germany two weeks ago for a President's team meeting with our new head of Europe as well as the head of Germany and they convened a meeting with all of the President's team there. They went through the basic elements of what makes a market successful. The President's team had a lot of input. From that meeting we've decided to accelerate a key launch of a product next year -- I'm not going to give you the name of that product yet, but it's a very important product to the marketplace. There will be significant marketing opportunities around that. I think the President's team came out of there very excited. I received a couple of unanticipated positive notes about that. So Germany is definitely, definitely in our scopes.

Scott Van Winkle - Adams Harkness - Analyst

Great. Keep the momentum going. Thanks.

Operator

The next question is from Chris Herrera from Merrill Lynch.

Chris Herrera - Merrill Lynch - Analyst

Hi, guys. I wondered if you could talk a little bit about the '06 top line outlook and obviously the momentum is huge right now and if you are looking for Mexico to be sort of in the 30% range, is Europe expected to accelerate in '06 significantly? Is the U.S. expected to accelerate from here? I just wanted a little color on that if you can.

Rich Goudis - HERBALIFE LTD - CFO

Why don't I start and then I'll pass it over to Greg for some more color. But as we mentioned, we have been a conservative group, Chris, and in this business while we have very good controls over our SG&A and discretionary spending probably the one thing we continue to challenge ourselves internally with is gaining better visibility further out on our revenue projections. So with that in mind we tend to always be conservative in our guidance, especially on the top line. But having concluded the second round of our five year plan with so many great ideas and the management offset that Michael mentioned, we feel very comfortable

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in at least moving the Street up to the mid teens at this point, again, having completed just a 25% top line growth so it's -- obviously we hair cutted it quite significantly.

That being said, specifically into Mexico, we just think the world of what's going on with Nutrition Clubs. We think it's a great concept. Feeding the poor. Individual servings. Creating a community around our brand and around our product is just phenomenal. And not only is it great in Mexico but we're taking that and there's almost 2000 clubs now outside of Mexico and that initiative just started a year ago. The clubs in Mexico are about three years old. While we believe there's still a lot of more penetration to happen in the Mexican marketplace, we've already started to focus on other large markets like Indonesia, like India, like South Africa. And I think you are going to -- 18 months, 24 months from now you are going to be hearing us talk about those markets with thousands of clubs in them. So net-net on the top line, I think we still remain very conservative in our guidance because that's the one area that we don't have specific visibility into I would say a couple quarters out it starts to diminish pretty quickly. And with that I will pass it over to Greg to maybe give you color on some of the other markets.

Greg Probert - HERBALIFE LTD - President, COO

I'm very bullish on all of it, Chris. If you look at the U.S. you a lot of initiatives we are just barely getting started on. If you look at Nutrition Clubs are starting to take hold in the U.S. I think that's a big upside for us. Dr. Steve Henig is developing some great products that will be launching next year at our extravaganza in the U.S. and we will talk about a little bit further in future calls. I think excitement in the U.S. is back. We have got the leadership. We're very, very united. I think the BizWork tool is helping distributors get some more data about their organization so they can focus their efforts so I feel very strong about the U.S. Japan we turned it around but it is more or less flat so we've stemmed the decline now it is time to grow that market. But again if you look at us compared to some of our competitors we are 10% market of where they are in the market. If you look at Brazil we are a couple hundred million dollars and the number one and two companies are over a billion, worldwide -- I look at it as worldwide we have around 2% of direct selling business and that's too low for me and it's too low for Michael and there is a lot of room to grow across the board.

Michael Johnson - HERBALIFE LTD - CEO

And the thing I like, just to add to that, Chris, is the place that we live with our products. We have basically broken our products down into five access portals to this company and weight management continues to be a tremendous marketplace out there. No pun intended there. But it is a global issue. It is not just a United States issue. It is a source of constant opportunity for us for our distributors. We have entered the energy and fitness marketplace and we are very excited about that and as Greg said, you will see some new products from us rolling in the next couple of years that target that segment.

Our Heart Health product line which is now foundation is -- the foundation is Core Complex which our Niteworks is in which is to help all people lose cholesterol. It is to help people create nitric oxide in the system which is a serious health benefit. I mean you are talking "Newsweek" magazine had an article about nitric oxide last week in it. They've come to the table two and a half years after we launched our product. Our skin care line in our health, our beauty line or our health line or other nutrition line is sensational. We are just getting that rolled out into the rest of the market. I think we are in 25 markets now out of 60. It's also in that line there is a great program that brings in distributors called Total Plan. It's a great way to recruit. It's a great way to lead generate and it's on the basis of our skin care line which is foundation -- which its foundation is aloe and vitamin C and then vitamins A, C, and E in our topical line.

Our targeted nutrition line is spectacular in this company. Under Steve's leadership and under Henry's previous leadership we have a group of products in that line that continue to be a wonderful, wonderful line. When I look at what we've got in terms of the marketplace and where we are just scratching the surface, we are targeting new distributors in our Generation H. We are targeting new distributors in sports nutrition, in heart health, in weight management, targeted nutrition, and outer nutrition meaning skin and hair care, we have a -- our new heart care product Core Complex is a fabulous line for what I would call the baby boomers and above. Generation H-ers think they are bullet proofers and then they come to the table when grey hairs

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start to sprout and realize that a longer life might be a better thing. So we are -- not only are we were developing business tools and distributor inspiration, and motivation, and wealth opportunity, our health opportunity in this company is becoming really fundamental to what we are.

Rich Goudis - HERBALIFE LTD - CFO

And then, Chris, to answer your specific question as it relates to Europe, we expect Europe to go back up into the, let's say, high single digit growth rate next year. Again, we don't expect the 30% growth that we had in '04 or '03. Or the double digits, excuse me, in '04 or '03, or '03 over '02. But high single digits is where we would expect to be.

Chris Herrera - Merrill Lynch - Analyst

And those are on a reported basis right, obviously, including currency as well?

Rich Goudis - HERBALIFE LTD - CFO

That's correct.

Chris Herrera - Merrill Lynch - Analyst

Got it. And then can you just talk real quick about the organization. I know with direct selling you are probably less stressed with this kind of growth rate organizationally than more of a manufacturing or other company. Can you talk a little bit about the impact of this accelerated growth rate on the need to hire from here and to sort of expand your resources internally?

Rich Goudis - HERBALIFE LTD - CFO

Sure, let me start and then I will hand it over to Greg. We had a little, just under 1.4 million in total distributors worldwide at the end of the quarter. And as you said it's very scalable. Our goal really, is to support the infrastructure so that we make sure people have the right product at the right time, the right tools at the right time and people are able to answer the phone calls when our distributor want to talk to them. That's why the investment in technology. That's why the investment in a lot of the sales centers as Greg and I both talked about within Germany, the Netherlands, throughout Mexico. You will find that wherever the infrastructure from a transportation standpoint is not that substantial, you will find us opening a lot of walk in and call centers to get closer to our distributors. That's what we are doing on a global basis and to the extent we can we are trying to be ahead of the power curve.

Chris Herrera - Merrill Lynch - Analyst

Thanks a lot.

Operator

The next question is from Javier Escalante from Morgan Stanley.

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Lucas Klein - Morgan Stanley - Analyst

Hi, this is actually Lucas Kline from Morgan Stanley filling in for Javier. A couple of quick questions for you guys. First, can you talk a little bit about what gives you confidence that you can modify your marketing plan for China? Do you believe that whatever regulations are going to be implemented in December that the Herbalife marketing plan can be competitive with the other direct sellers that you'll be competing with in China?

Rich Goudis - HERBALIFE LTD - CFO

I guess two questions in there. One, yes, we are very confident that we can modify the plan that we have, we work with our distributors and it's in line with regulations and we feel very, very competitive with the other direct selling companies doing business in the market. And more importantly, our distributors feel it's competitive and we are seeing good uptake of distributor sign-ups in our first six weeks. One thing for me to say it, it's another thing for our distributors to say it and for them to actively recruit sales people in the market.

Lucas Klein - Morgan Stanley - Analyst

Sure, that makes a lot of sense. Second question. Just on Japan, I mean, certainly it seems that things are turning around earlier than expected. You guys mentioned that and you've talked about the relocation of the headquarters, the new Country management, the Gen H, the reinvigorated Chairmans Club and distributor base, I'm just wondering why you think this stuff accelerated so much and did that have any implications for how you're thinking about the turnaround time for the Netherlands and Germany? Have you guys figured out sort of how to turn this stuff around a little more quickly?

Rich Goudis - HERBALIFE LTD - CFO

I think the simple answer is the plan that we used to turn around both the U.S., Korea, and Japan are all very similar in terms of components. They are cultured for the local markets but the basic tenants of distributor -- united distributor leadership, strong Country management. Strong product portfolio, strong events, branding initiatives. We use those in all three of the markets that we've turned around and those are the things, as Michael said when ways in Europe in both the Netherlands and Germany a couple weeks ago those are exactly initiatives that we point to in Germany and Netherlands. I think one of the things it gives our distributor leadership confidence in those markets is that we are showing them things that were done in other markets that were -- in actually much worse condition than Germany and Netherlands. Japan was in fairly massive decline a couple of years ago. And we turned that around in 18 months. So I think if you look at Germany in and Netherlands they are nowhere near that level of decline. I would call them more blips than massive declines. So I think our leadership is confident that the things that were done in the other markets together with the Company and the leadership are transferable to both Germany and Netherlands, to turn those markets around.

Lucas Klein - Morgan Stanley - Analyst

Sure. Absolutely. Last question. Is -- for -- your top line guidance for '06, is there any geographic expansion, new countries built into that guidance? Or would that be more potential upside if other markets slowed or something like that?

Rich Goudis - HERBALIFE LTD - CFO

Lucas, as we said we open two to three new markets a year and typically you don't see a lot of incrementality in sales when those markets open with the exception of China. So next year I would say in '06 there's probably two to three key markets that will be opening up but nothing that will be material as it relates to the guidance that we gave with the exception of China. As

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Greg mentioned earlier, we expect China to be a net EBIT loss of almost 10 million next year. And a broad range and top line between let's say 30 to 50 million in net sales. Depending how the business builds throughout the year.

Lucas Klein - *Morgan Stanley - Analyst*

Great. Thank you guys very much.

Rich Goudis - *HERBALIFE LTD - CFO*

We will take one more call.

Operator

The next question is from David Risk from Hawthorne Capital.

David Risk - *Hawthorne Capital - Analyst*

Thanks for taking the question. With France up over 30% year to date, I would like to know if you guys are concerned that the ongoing riots in France might cause the momentum to slow in this region?

Rich Goudis - *HERBALIFE LTD - CFO*

No, we don't believe so.

Michael Johnson - *HERBALIFE LTD - CEO*

The press does a wonderful job of blowing things up quite a bit. And, no, I haven't talked to anybody in France in the last 24 hours but these tend to be very isolated in the regions. They are happening in a lot of cities but isolated in neighborhoods. And there are isolated into certain groups and our French group who I have seen many, many times doesn't appear to be affected by these at this moment.

David Risk - *Hawthorne Capital - Analyst*

Great. Thank you.

Rich Goudis - *HERBALIFE LTD - CFO*

Thank you. Michael closing comments?

Michael Johnson - *HERBALIFE LTD - CEO*

Yes, I just want to thank all of you on behalf of our distributors, our management team and our obviously our shareholders for the support during our first year of being public. Obviously we have been doing a lot of work as a public company that's different than we did as a private company. As you guys can see from our third quarter results we are delivering up on our promises and hopefully exceeding a few of them. I'm really excited about the health of our company. Our distributors, our products, and our brand are stronger than they were a year ago. We know it and over the next few weeks some of us and me in particular will be

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attending a lot of distributor events. We are going to see thousands of distributors in Budapest, Hungary, Kolbe, Japan, and South Hollow, Brazil and we will celebrate our success ,share our vision for the Company, and hopefully inspire our distributors to achieve their dreams. We've got a great company here I'm glad you are part of it and we are committed to changing people's lives. Thank you very much.

Operator

Ladies and gentlemen, thanks for participating in today's conference. This concludes the program. You may now disconnect.

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