

FINAL TRANSCRIPT

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HLF - Q4 2007 HERBALIFE LTD Earnings Conference Call

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CORPORATE PARTICIPANTS

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Herbalife Ltd. - General Counsel, Secretary

Michael Johnson

Herbalife Ltd. - Chairman, CEO

Greg Probert

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PRESENTATION

Operator

Good morning and thank you for joining the fourth-quarter 2007 earnings conference call for Herbalife Ltd. On the call today is Michael O. Johnson, the Company's Chairman and CEO; Greg Probert, the Company's President and COO; and Rich Goudis the CFO. I would now like to turn the call over to Brett Chapman, the Company's General Counsel, to read the Company's Safe Harbor language.

Brett Chapman - *Herbalife Ltd. - General Counsel, Secretary*

Thank you. Before we begin and as a reminder, during this conference call comments may be made that include some forward-looking statements. These statements involve risk and uncertainty and, as you know, actual results may differ materially from those discussed or anticipated. We encourage you to refer to yesterday's earnings release and our SEC filings for a complete discussion of risks associated with forward-looking statements and our business.

In addition, during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles referred to by the SEC as non-GAAP financial measures. We believe these non-GAAP financial measures (technical difficulty) management and investors in evaluating and comparing period-to-period results of operations in a more meaningful and consistent manner. Please refer to the Investor Relations section of our website, Herbalife.com, to find our fourth-quarter press release containing a reconciliation of these measures. I'd like now to turn the call over to Michael Johnson.

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Michael Johnson - Herbalife Ltd. - Chairman, CEO

Thanks, Brett, and good morning, everyone. Welcome again to our fourth-quarter and 2007 conference call. Let me start out with a few comments regarding our full-year performance followed by key highlights of our most recent quarter and, lastly, touch upon some recent trends.

Investors often ask me why our business is doing so well especially during economically challenging times. And my response has always been in the combination of our product, our highly entrepreneurial distributors and our management team we are providing healthy solutions to global health issues like obesity and providing a great business opportunity to people in search of supplemental or full-time income, this works well in these times.

Over the past three years our distributors and management team have been leading a transformation in our company. With the emergence of the customer club model and its various cultural adaptations distributors are now reaching more consumers than ever before. They're increasing access to our products, they're promoting daily consumption and this has been a significant catalyst for growth in many of our markets.

2007, as you know, was on another record year for Herbalife. We experienced double-digit top-line growth of 13.8%; our operating margins expanded 71 basis points and our EPS increased 31%. Throughout the year we experienced broad strength and balance in our top-line growth. Our top 10 markets comprised 68% of our net sales and collectively they grew 17%. Our number one market, the United States, grew 24% and over 80% of our sales came from outside the U.S. Both our operating profit margins and EPS increased to record levels reflecting the strength of our business model and our focus on increasing returns to you, our shareholders.

We tapped into our balance sheet in 2007 to take advantage of what we believe was an inexpensive stock. Since the inception of our buyback last May we have repurchased 9.5 million shares, 13% of our common stock, and our balance sheet remains conservatively levered at approximately 1 times EBITDA.

We have been public now for three years and both our financial fundamentals and our outlook future success -- well, frankly, they've never been stronger. In non-financial terms we evaluate the strength of our business against the performance of three R's -- retailing, recruiting and retention.

Our net sales growth demonstrates the success we're having in retailing; our strength in retailing has come as our distributors are making our products more accessible than ever before. Our mission for nutrition is based on daily consumption and the most successful and sustainable business models we have are those that are based on daily consumption. Over the past two years we increased support of daily consumption by product development, packaging and training.

We've also had success with recruiting as evidenced by the record number of distributors in our business, over 1.7 million, which reflects an annual increase of 8.6%. Over 210,000 new Sales Leaders joined Herbalife in 2007, an increase of 6.6%. More distributors attained the highest recognition levels in the Company than ever before including 113 new President's Team members, an increase of almost 12%, and two new Chairman's Club members.

On the third R of retention, we were stable at 40% excluding Mexico. As you may recall, the growth and training issues we experienced in Mexico in late 2006, coupled with our enhanced enforcement efforts in that country, have led to fewer supervisors who requalify. On a positive note, we experienced an increase in retention rates in key markets such as the U.S. which is up 30 basis points, Taiwan up 510 basis points, Japan up 410, and Brazil up 80 basis points.

Now let's take a look at our fourth quarter. Our financial performance was frankly outstanding. Led by top-line growth of 18.6%, our strongest quarter of the year in both growth rate and absolute dollars. Once again we benefited by the fact that 82% of our business is international where currency had a 620 basis point contribution to our top-line growth rate.

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Our revenue growth is well balanced. Our top 10 markets which represent 67% of our business grew 20%; all other markets were up 16%. In the U.S., our largest and our oldest market, net sales are up 22% for the quarter which marks the sixth consecutive quarter of 20% plus growth for that market.

Globally we saw strength in several markets. Taiwan sales were up 19% as our distributors continued their implementation of methods that support daily consumption. China sales are up 146%, becoming now our number five market this quarter. With 90 retail locations in 29 provinces and five provincial licenses currently under review we remain optimistic for continued success in this market.

Our Spanish-speaking South American markets are growing at double and triple digit pace. Venezuela was up 349%, that's hard to say -- 349%. Bolivia was up 147% and Argentina was up 38%. Peru, which has been open for only 13 months, has been a strong success story becoming a top 20 market in the past quarter.

Attendance at our major events is a great indicator for momentum in a marketplace. In the past month we hosted over 20,000 distributors at major events in Argentina and Venezuela. These attendance figures are tremendous when you consider that just two years ago our Spanish-speaking South American markets had one extravaganza attended by 2,500 distributors. In Europe we experienced sales increases in Italy of 22%, in Spain of 26%, in France of 34% and in Russia of 15%.

Throughout the year we have worked diligently along side our distributors to stabilize our business in Mexico. Sales were slightly below our expectations, down 1%. The Mexico and Central America region as a whole finished up the year at 2% helped by momentum in Panama and the opening of El Salvador.

Reflecting the leverage in our business coupled with our focus on high ROI spending, our operating margins expanded by nearly 60 basis points to 15.1% of sales and our EPS was up 33%. I'm confident that we're heading into 2008 with positive momentum. As you may know, the new Sales Leader metric is a key leading indicator of future growth of our business. In the fourth quarter new Sales Leaders increased 10%, the largest quarterly increase throughout the year. And as a preview into our first quarter Herbalife had its highest sales month ever in January 2008. Our net sales were up over 20% when compared to January 2007.

In the first few weeks of 2008 we announced the addition of three new Chairman's Club members. This is an important indication to our distributors that the doors are still wide-open at the top. In January we introduced two new Chairman's Club members, Guillermo and Carola Luna and Shawn and Nicole Dahl. Guillermo and Carola's distributorship is from our growing South American region and their organization spans across 16 countries. Shawn and Nicole are from the North American region and are now second generation distributors.

And in February we introduced our 35th Chairman's Club members Eduardo Cuella and Sylvia Anzola. Eduardo, a psychologist and a doctor and psychologist -- excuse me, Eduardo is a doctor and his wife Sylvia is a psychologist. They are located in Bogota, Colombia. Eduardo and Sylvia are examples of the type of individuals attracted to the Herbalife business and health opportunity.

The addition of three new Chairman's Club demonstrates, as I said before, the momentum that our distributors are carrying into 2008 and it demonstrates that the door is open and there's room at the top for all of our distributors.

We continue to support our brand with sponsorship programs. The goal of these programs is to drive brand awareness, create distributor activation opportunities and associate our brand with a healthy active lifestyle. Our goal is to create opportunities for our distributors to activate the brand within their communities. Our latest sponsorship was developed with that objective in mind.

In January we introduced a unique partnership with AYSO, the American Youth Soccer Organization. This agreement makes Herbalife the official nutrition adviser and official health and wellness provider of the United State's leading youth soccer organization. Over 1 million children play AYSO soccer on 80,000 teams throughout the U.S. The sponsorship includes putting

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the Herbalife logo on AYSO jerseys. Potentially up to 1 million children will wear Herbalife on their Jersey just like the Los Angeles Galaxy.

Also included in the sponsorship is a sampling of our kids' shakes, our H3O hydration drink and our deluxe protein bar at matches and events also combined with field signage and a website presence. And our distributors can build on this sponsorship with the AYSO organization in their communities by doing local sponsorships.

This sponsorship supports retailing with sampling and activation opportunities for our distributors and it will help in recruiting a key target segment of the U.S. population, the stay-at-home-mom. These women want to give their kids great nutrition and they may be searching for supplemental income through our wonderful business opportunity.

To further support our distributors in their marketing efforts we've recently introduced brand style guides and a brand asset library for our distributors. This will help them activate the brand once again in their local marketplaces.

Now on to product -- we've been very active in product development in the fourth quarter of 2007. We launched Cafe Latte flavored Formula One to expand the flavors available in our number one selling product line. This has been received very well, especially by the nutrition club operators. We also introduced skin activator packets to support the sampling DMO. Our new Soft Green line in Brazil has been well received by distributors and their customers. It's manufactured locally with attractive price points and we extended that line to include three additional SKUs in December.

We continue to expand our core product portfolio globally including Heart Health products in South America and our Outer Nutrition products in additional Asia-Pacific countries. We are also working with officials on Capitol Hill to make our products more accessible to consumers.

As you may know, consumers can use pretax contribution in their HSA or FSA accounts to reimburse over-the-counter products. Herbalife has been working in support of bill number 1107 which would allow consumers to use HSA or FSA contribution towards a narrow set of nutritional products whose efficacy is supported with health claims. We feel this is an important role that Herbalife can play to help the U.S. evolve from a sick care system to one that incents people to live healthier lives by making nutrition more affordable.

Events and meetings are important to our business to introduce our products. They share best practices at these meetings among the attendees as well as educate, train and inspire our independent distributors.

In the first quarter of 2008 we had several important events take place. The North American region hosted the January kick-off meetings in 10 cities in the United States, Canada and Jamaica as well as two-day Latino meetings in six different U.S. cities. As part of the bifurcation of the U.S. business into the Latin and non-Latin business units the market is proactively developing event calendars customized to the needs of these two different distributor communities. In Mexico we hosted 7,000 distributors at a leadership development weekend at events in Hermosillo and VeraCruz.

In the Asia-Pacific region Herbalife will be sponsoring the Los Angeles Galaxy's exhibition games in Asia in March with matches in Hong Kong, Seoul, South Korea and Shanghai, China. Over 150,000 people are expected to attend these three matches. In fact, I'm excited to tell you I'll be at the Shanghai game along with 5,000 distributors and 60,000 spectators in one week.

As I just mentioned, we've had over 20,000 distributors attend two events in South America during the past month and, best of all, our annual Herbalife honors event will take place in two weeks in Singapore. We will award our best distributors with a record \$34 million. At this event our President's Team and Chairman's Club will share big ideas driving their businesses with each other and with their downlines.

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It was in this forum in 2004 that we started sharing the Nutrition Club concept from Mexico with the world. Today we have approximately 40,000 Nutrition Clubs in 40 countries. Those are good numbers, it's been a great quarter so let's turn it over to Greg to give you an update on our key business trends. Greg?

Greg Probert - Herbalife Ltd. - President, COO

Thank you, Michael. Before I get started I'd like to take a moment to say thank you to our distributors and employees around the world and congratulate them on another record year. It is through their incredible efforts that we were able to achieve such impressive results in 2007.

As you saw in our earnings release yesterday, at the end of 2007 we modified the regional structure from seven regions to five regions. We did this for two reasons. First, to better align our resources to improve the support for our distributor leadership. For example, Peru opened in December of 2006 and several of our distributor leaders from Brazil shifted their focus in time to develop Peru.

The incremental \$27 million in annual sales in Peru more than offset the \$5 million decline in Brazil and these market expansion efforts extended our distributors' downline organizations throughout the region. By incorporating Brazil into the rest of the South American market we can now better serve the breadth of our distributors' downline organizations.

Secondly, we saw this as an opportunity to enhance synergies within the region, particularly in the areas of sales and marketing. For example, the success of commercial clubs in Taiwan has led to adoption of clubs in Japan and Korea. With a unified Asia-Pacific structure we can now integrate best practice more quickly across these neighboring countries.

With regard to the specific changes, the regions of EMEA, North America and Mexico and Central America remain the same. The South America region now includes Brazil and is headed by Rob Levy. Asia-Pacific includes Southeast Asia, North Asia and the Greater China countries and is now headed by Paul Noack. Until recently Paul served as our Chief Strategic Officer and that role was a key architect of our China strategy.

Bill Rahn continues to run the North Asia market which includes Japan and Korea and he will also now assume responsibility for all marketing activities throughout the region. Similarly, [Eddie Heinrich] continues to run the Southeast Asia market and he'll have responsibility for all sales activities across the Asia-Pacific region. China continues to be run by Jerry Li and will report directly into Paul Noack along with our Taiwan and Hong Kong markets.

Now I'd like to take a few minutes to highlight business trends in some of our key markets which investors have focused on recently -- the U.S., Mexico, Brazil and China.

The U.S. had strong momentum all year despite softness in the U.S. economy, reflecting what we believe is an economically resilient business model coupled with the transformation of the business to a more daily consumption model. We have had six straight quarters with 20 plus percent sequential growth in the U.S. In the fourth quarter sales in the top 25 metro areas increased 30% year-over-year. Nine of our top 10 metro areas posted double-digit sales growth year-over-year.

62% of the U.S. business came from our Latino distributors which grew 38% reflecting strong and motivated distributor leadership. 38% of the business came from our non-Latino distributors which grew 1%. During the quarter over 7,000 distributors attended our Herbalife University and our Latino Development Weekend in October 2007.

For the U.S. market our 2008 expectations are for continued growth driven by the expansion of Customer Clubs, Internet business systems, distributor sampling which has a catalyst from an AYSO agreement, and emerging DMOs such as a weight loss challenge. In addition, we'll be opening several sales centers in key cities such as New York, Chicago and Fresno.

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These sales centers are run by a third party, are self-funded and have proven to be a good resource for our Latino market with a large portion of cash and carry distributors. If these centers prove to be successful we could add additional centers to additional markets with no capital cost to Herbalife.

Mexico finished the year nearly flat versus 2006 which is what we had projected back in January of 2007. Fourth-quarter results were down 1.4% versus prior year but trended up 4.5% sequentially from Q3 '07 and volume point growth was positive year-over-year for both November and December. New supervisors were up 2% sequentially from third quarter lead by December which had over 3,000 new supervisors.

The 2007 infrastructure and training investments have been completed and are now showing positive initial signs. The states with new distribution centers grew 40% helping our distributors expand their reach into new towns and cities while also helping to alleviate congestion at our older facilities.

And lastly, we have worked closely with our distributor leadership to develop promotions and incentives to provide the catalyst for sustainable growth. One such promotion has the objective to double the number of nutrition clubs which has been named the club of club challenges. The way it works is that each club operator who opens a nutrition club will earn a cash bonus.

In addition, we will recognize the distributor who opens the highest number of clubs as the number one nutrition club builder and recognize the distributor who has the highest number of nutrition clubs in his organization as the number one nutrition club multiplier. This promotion will begin in the second quarter of 2008.

We expect Mexico to return to growth in late 2008 led by the rebuilding efforts in 2007 including additional infrastructure, a new local management team, increased distributor training and promotions like the club of club challenges I just explained. All these are built on a strong foundation of the nutrition club DMO.

Now let's turn to Brazil. Brazil continues its transition to a better balancing of the three R's -- retailing, retention and recurring. For those distributors who have been using Nutrition Club DMO for more than a year, sales were up 8% for the year. This growth is very encouraging and leads us to believe that the concept has been a culture rated and distributors have figured out how to replicate the model.

For those still transitioning from the traditional business to the Nutrition Clubs sales were down 14% for the quarter. We remain very encouraged that our distributors are having success with the Nutrition Clubs and we are optimistic in the second half of 2008 distributors who have transitioned their business to Nutrition Clubs over the past year will be posting positive growth.

The recently launched Soft Green line has been a success in Brazil with sales of over 2 million volume points which account for more than 13% of our Outer Nutrition business. Moreover this new line is helping to grow the Outer Nutrition business. Average Outer Nutrition sales have grown 40% since the launch of the Soft Green line going from 1.1 million volume points a month to the Soft Green launch to 1.5 million volume points a month. Based upon this early success we'll be looking to extend this slide in 2008.

In terms of events, we hosted over 6,000 distributors at the Brazil Southeast Extravaganza in December 2007. In Brazil we hope to see positive revenue comps as early as the second half of 2008. For the region we expect the continued strong growth in the Spanish-speaking markets of South America to more than offset any softness in Brazil during the first half of 2008.

China continues to grow in line with our expectations. In 2007 we ended the year with approximately \$75 million in net sales. Annualizing our fourth-quarter revenue suggests we could do \$100 million in 2008, a 33% increase. As Michael mentioned earlier, while we do not yet have an update on the direct selling licenses under review with MOFCOM, we remain optimistic on their approval in the near future which should provide an ongoing catalyst for growth in this key market.

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We operate 90 retail locations across 29 provinces and we are currently revising our real estate strategy to maximize the impact of our current stores as well as optimize new store openings. We expect to end 2008 with over 100 stores across more than 30 provinces. We also plan to apply for additional provincial licenses later in the year which will help carry positive momentum into 2009.

In January 2008 we hosted kick-off meetings in six cities which featured Dr. David Heber and a Chinese language version of his book, *What Color is Your Diet*, in support of our rollout of Garden 7 in China. Michael mentioned the Los Angeles Galaxy tour through Asia in March and this is a great example of our brand enhancing activities.

Beyond the 150,000 attendees in the stands, we anticipate there are hundreds of millions of Asian consumers who watch these games. Each impression ties the Herbalife brand to a healthy active lifestyle as personified by the sport as well as the Galaxy players like David Beckham. This is an exciting sponsorship for this very important region.

We expect China to be a key contributor to our revenue growth in 2008 and beyond and we continue to work closely with the Chinese government to obtain additional provincial licenses which will allow us to operate a direct selling business nationwide. Thank you and now I'll turn it over to Rich for a financial update.

Rich Goudis - Herbalife Ltd. - CFO

Thanks, Greg. Let me briefly walk you through the fourth-quarter financial results that were contained in yesterday's press release and provide financial guidance for the first quarter of 2008 and revised guidance for the full year 2008, then we'll open it up for your questions.

Net sales was \$578 million in the quarter, up 18.6% versus the fourth quarter of 2006 driven by strong volume across many of our markets reflecting the highest quarterly growth rate in terms of new Sales Leaders for 2007. FX had a 620 basis when favorable impact during the quarter, the largest contribution for the year. The favorable FX contribution reflects the fact that 82% of our business is derived outside the U.S.

On a full-year basis net sales increased 13.8% of \$2.1 billion and FX had a 390 basis point favorable impact. On a reported basis gross profit in the fourth quarter was \$464.2 million or 80.3% of sales; however, excluding a onetime benefit resulting from an international tax settlement, gross margin was 79.9%, an increase of 23 basis points compared to the fourth quarter of 2006. The difference was primarily due to the sales increases in China which has a favorable cost of goods structure reflecting our local manufacturing coupled with our pricing and commissioning structure.

Royalty expense for the fourth quarter was \$204.8 million or 35.4% of sales reflecting an improvement of 30 basis points compared to last year. The difference is attributable to sales increases in China as commissions and bonuses are paid to our Chinese sales employees are recorded in SG&A. This was partially offset by a year-to-date correction in one of our international markets.

Including the China sales employee expenses in royalties, royalties as a percent of sales increased 59 basis points to 37% compared to 2006, again primarily reflecting the correction made in the fourth quarter. Without the adjustment in the fourth quarter we were essentially flat with 2006.

On a reported basis fourth-quarter SG&A was \$173.7 million or 30.1% of sales. Excluding expenses associated with the China sales employees just mentioned, SG&A expense was \$162.2 million or 28.1% of sales, an improvement of 236 basis points versus 2006. And when you normalize SG&A for the realignment expenses that were incurred in both 2006 and 2007, our SG&A as a percent of sales improved 150 basis points to 27.4% compared to 2006.

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Fourth-quarter operating income was \$85.7 million or 14.8% of sales on a reported basis. However, excluding the onetime tax benefit reflected in gross profit and the realignment expenses reflected in SG&A, operating income as a percent of sales improved 57 basis points to 15.1% of sales. This improvement reflects the leverage we have in this business coupled with our prioritization of investments to maximize our returns.

Fourth-quarter interest expense was \$3.4 million versus \$2.7 million in 2006. The increase of \$700,000 primarily reflects the higher net debt balance as we utilized our revolver to repurchase stock. On a reported basis our fourth-quarter effective tax rate was 34.6%; however, adjusting for nonrecurring items as described in our press release yesterday, the fourth-quarter effective tax rate was 34.3% or 60 basis points below the normalized fourth-quarter 2006 rate. Our effective tax rate has steadily declined over the past three years and we anticipate further improvement in 2008.

Net income on a reported basis was \$53.8 million in the quarter compared to \$41.7 million in the fourth quarter of 2006. On a normalized basis net income was \$55.1 million reflecting an increase of 24% compared to the normalized net income in 2006. And fourth-quarter reported diluted EPS was \$0.77 as compared to \$0.56 in the fourth quarter of 2006. On a normalized basis fourth-quarter diluted earnings per share increased 33.2% to \$0.79.

Now let's turn to the balance sheet. We ended 2007 with \$187.4 million in cash and \$357.4 million in outstanding debt. We were successful in reducing inventory \$17 million throughout the year. And in terms of efficiency, our days on hand improved 21 days to 113 days and, more importantly, our inventory turnover improved 50 basis points to 3.22 compared to the fourth quarter of 2006. CapEx was \$17 million in the fourth quarter which reflects our ongoing investments in our infrastructure.

Now let's turn to guidance. We're providing first-quarter guidance for the first time and we're raising our full-year 2008 net sales growth and EPS guidance. We expect top-line growth in the first quarter to be in a range of 12% to 14% and diluted EPS to be in the range of \$0.77 to \$0.79, reflecting an increase of 26 to 30% over 2007. And based on current business trends, as Michael and Greg mentioned earlier on the call, we are raising our outlook for 2008.

We now expect top-line growth to be in a range of 9% to 11% and full-year diluted EPS to be in a range of \$3.25 to \$3.30 reflecting an increase of 20% to 22% over 2007. Please note that these estimates exclude our costs expected to be incurred related to our realignment for growth initiative and accretion resulting from any further share repurchases.

While Michael and Greg described the positive business trends with you today, we remain hesitant to provide higher 2008 guidance this early in the year as we still remember the punishment we took in the market when we had to reguide our sales growth estimates in Mexico in 2007, January.

As in the past, we remain cautious in our expectations for our 2008 guidance and, as we have done in the past, we will revisit our guidance each quarter based on the most recent business trends. That concludes our prepared remarks, now we'll open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Simeon Gutman.

Simeon Gutman - Goldman Sachs - Analyst

Just want to walk through the chronology of what happened in Mexico. Because I know when you reported the third quarter in early November you were thinking something in the low single-digit range. And if October was a slower building month, I

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guess the assumption was November and December were going to be better. And it sounds like they were but not as strong. I want to make sure I have that down correct. And then if they weren't as strong, what were anything specific you can point to, anything geographic or is it just a simple business just taking a little longer to get going?

Michael Johnson - Herbalife Ltd. - Chairman, CEO

I think it's more just a lag, Simeon. October we comped negative, but both in November and December we comped positive. So just like we talked on the last earnings call where we fell a little bit short in September, we also fell short in October but we saw very positive momentum building in November and December. And as Greg mentioned, I think we were up sequentially 4.2% from Q3 to Q4 where previous year I think we were down sequentially Q3 to Q4.

As Michael mentioned, we've built a strong foundation. We have some really significant promotions that are kicking in in the second quarter. So we think we've built a strong foundation, we've cleaned up the ethical issues from a year ago and strengthened our training programs. And now with this incentive program, that will kick off in the second quarter. That really creates a stimulus for people to start recruiting and building more clubs and therefore building revenue.

Simeon Gutman - Goldman Sachs - Analyst

And the Club of Clubs promotion definitely sounds like a terrific recruiting tool and I know the Nutrition Club hits on all the three R's, but it sounds like doubling the number of Nutrition Clubs, how does that play into the retention part? And then are you also measuring some type of productivity from the clubs as opposed to just the pure sake of opening them?

Greg Probert - Herbalife Ltd. - President, COO

This is Greg, Simeon. I think those are great questions. We're looking not only opening clubs, but making sure that the clubs opened are solid and based on a strong foundation. If you remember, one of the reasons that our retention is down in Mexico is that we were cleaning out some of the clubs that were non-compliant and we did that through our audits and through our EBP.

And we think now that those clubs are gone we have a very stable base upon which to grow. And we want to make sure that we incentivize our distributors to open clubs and I think a key learning of both management and our distributor leadership was that those clubs have to be open the right way, in the right locations and we now have the infrastructure to support that.

As I said in my prepared comments, in the areas where we've opened the new distribution centers our sales are increasing, they're decreasing in Mexico City where most of the noncompliant clubs were. So I think we've done all the right things and I think this promotion will be the stimulus to get our distributors back to opening new clubs.

Simeon Gutman - Goldman Sachs - Analyst

Okay. And then on the branding side of things, in '07 I'd argue that you've only started to lay the groundwork for some of the higher profile things, and then in early '08 here with AYSO and then last year with Galaxy. Is there anything at a high-level that you've seen in anything shifting, any key distributors really taking to some of the sponsorships and exploiting it? Anything in activation, is there anything momentum wise that is a regional that you're already benefiting from it?

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Michael Lasser - *Lehman Brothers - Analyst*

It's Michael. Yes, we've had distributors -- actually the AYSO program that we did is something that we've had on our mind for a while, but a distributor actually beat us to the punch on this with -- in Florida we had a distributor down there who sponsored the local AYSO program and he sponsored it in a large way and we watched and saw what he did down there.

And if he can become the blueprint for distributors throughout the United States and throughout the world to get involved with other teams, not only soccer but others sports teams and get him to sponsor with Herbalife and get it on the jerseys -- it's a relatively small investment. They can buy the uniforms, they can take the product (technical difficulty) tents to set up. We're working with local management everywhere so we've got tents, banners, sampling size.

In the Philippines the Subic Bay triathlon was sponsored by a distributor down there. We have distributors which is a huge deal so you've got a ton of leads down there. We just came off the promotion of the tour of California where distributors managed all of the booths there, and the distributors who were at the closing event in Pasadena in pouring rain on Sunday walked away with somewhere around 1,500 leads out of that event. That is a significant day for them for two to three hours worth of work to have 1,500 leads and generate customers, retail customers, potential new distributors.

So these are the kinds of things that are taking place. We have, as I said -- there are too many to mention. There's a bicycle racing team being sponsored by one of our distributors. There are local sports teams throughout Europe. We have triathletes who are sponsored not only by the Company but by individuals. We have a gentleman who's going to climb Mount Kilimanjaro who's got cerebral palsy who is being sponsored by a distributor and taking our products who will be climbing Kilimanjaro at the end of this summer.

These are branding, creating great awareness, working with distributors on a local basis and having distributors actually activated. And as soon as these stories get out -- and that is why these meetings are so good and I'm sorry to be so longwinded here -- but these meetings are so good because the distributors come; they're proud of their stories, they share their photographs, they share their results. And that entices and enlightens in other distributors' minds to say, hey, I can do this too. So that's where the success starts to build.

Greg Probert - *Herbalife Ltd. - President, COO*

Let me just add a little color to the AYSO. As Michael said, something we have been eyeing now for over a year and finally are able to conclude the deal. But if you remember, one of the things we talked about over the past year was really going after the stay-at-home moms. We launched a children's line which is a great product line to go after that segment. And now, we have access to -- our distributors have access to well over one million soccer moms and soccer dads, and it is really a great example of grass-roots distributor activation.

So again, I think in terms of access to our brand and access to our products, it is a watershed agreement in terms of the U.S. and just great to have the children's line to go with that.

Simeon Gutman - *Goldman Sachs - Analyst*

I just have two more; I will ask them together. The first maybe for Greg. On the Eastern European markets, what is the strategy and how is that evolving? And then second for Rich, is there any free cash flow usage assumed in your '08 guidance?

Greg Probert - *Herbalife Ltd. - President, COO*

I will do the Eastern Europe. I think the results as we reported in Russia were up 15%, which was I think encouraging. We have always felt there is a lot of untapped potential in that market. As we announced last quarter, we just hired a new vice president

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to run Central and Eastern Europe for us who came from one of our major competitors in that region. So I am going to do a tour of that region with Wynne Roberts who runs EMEA for us in April, to really go and visit Poland and Russia and a few other countries that really formulate, I think, a more aggressive plan for getting deeper penetration in those markets.

Because as you know, a lot of our competitors have tremendous double-digit growth throughout Central/Eastern Europe, Russia, CIS. So I think it is certainly on our radar and like I said, I will be going there in a couple weeks to work with our European management team on a more aggressive plan to penetrate those markets.

Rich Goudis - Herbalife Ltd. - CFO

Then Simeon, obviously, we remain conservative in our guidance. So what our expectations are is no further share repurchases. We will use our excess free cash to pay down the debt. So again, if we were to potentially go back in the market, that would only provide more accretion above our current guidance.

Simeon Gutman - Goldman Sachs - Analyst

Right, but it still doesn't even assume you complete the authorization in that number, correct?

Rich Goudis - Herbalife Ltd. - CFO

That is correct. I think we have about \$65 million outstanding. And again, our guidance is typically very conservative, and the conservative thing to do is pay down debt.

Simeon Gutman - Goldman Sachs - Analyst

Okay, thanks.

Operator

Olivia Tong, Merrill Lynch.

Olivia Tong - Merrill Lynch - Analyst

Good morning. Just one quick one first. Can you explain what the correction was in the royalty overrides?

Rich Goudis - Herbalife Ltd. - CFO

Yes, it was a year-to-date catch-up in Mexico.

Olivia Tong - Merrill Lynch - Analyst

Can you provide a little further detail; why the need for a catch-up?

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Rich Goudis - Herbalife Ltd. - CFO

I don't know the specific reason, other than I think it was just a calculation error that was made throughout the year. So it was just a cumulative catch-up.

Olivia Tong - Merrill Lynch - Analyst

Okay. Sales clearly beat your own expectations. Relative to your own expectations, are there particular regions where you saw much more sales upside than others?

Greg Probert - Herbalife Ltd. - President, COO

Can you just repeat the question, please?

Olivia Tong - Merrill Lynch - Analyst

Sure. Sales obviously beat your own internal expectations. So I'm just wondering were there any particular regions where you saw results that were well above expectations, or was it more -- just a little bit more in each region.

Greg Probert - Herbalife Ltd. - President, COO

No, I think net-net, the only market in local currency terms where we thought we fell a little short was Mexico, as Michael and Greg mentioned. And then where the upside really came from was currency. Currency was 620 basis points of benefit in the quarter. It was our largest contribution. We had some upside in the South America region. And a little bit in China, it was a little bit stronger, but net-net I think it was really currency that you saw come through.

Olivia Tong - Merrill Lynch - Analyst

Got it. Thanks a lot.

Operator

Karen Howland, Lehman Brothers.

Karen Howland - Lehman Brothers - Analyst

Thanks. Curious about your sales forecast. I know you had indicated that it was up about 20% in January. I recognize the desire to be conservative, but that 12% to 14% for the first quarter seems particularly low if January is up 20%, unless of course you are seeing something in the February month that would leave you to think that it is going to decrease that much.

Rich Goudis - Herbalife Ltd. - CFO

No, there is nothing that we are seeing that is negative. I think it is just you are seeing this management team being cautious, number one. Again, in January we saw tremendous currency benefit. Our guidance for you is more cautious. Now, the dollar fell again to -- I think the euro is \$1.50 today. That is clearly a little bit different than what is contained in our guidance.

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Karen Howland - *Lehman Brothers - Analyst*

How much was currency in January of that 20%?

Rich Goudis - *Herbalife Ltd. - CFO*

We didn't disclose that.

Karen Howland - *Lehman Brothers - Analyst*

Okay. Then I was wondering, I know you have been working to decrease the overall tax rate. I was wondering if you have any assumptions baked in for that for 2008.

Rich Goudis - *Herbalife Ltd. - CFO*

I think last year, we kind of suggested that it would be in the low 30s. So I think most analysts are about 32%, Karen. I would probably say that anything below 32%, you would probably see potentially further increase in our guidance.

Karen Howland - *Lehman Brothers - Analyst*

Okay, great. Thank you very much.

Operator

(OPERATOR INSTRUCTIONS)

Michael Lasser - *Lehman Brothers - Analyst*

Okay. It looks like we have reached the point where the questions have been answered, and the quarter is done and it's time to get back to work here. So I'm going to conclude it with a few comments. First of all, I want to thank everybody for being on the call and thank you for your support of our company. We are very proud of Herbalife.

We know we head into 2008 with tremendous momentum, which you have already seen, challenges and opportunities. Our health and nutrition and biz opportunity platform puts us in a very unique place. We have an opportunity for people to add real income to their lives, either supplemental or full-time. We are taking the global health issue head-on which is obesity, heart health, two areas that we think are very, very important.

As I watch and listen to all of the candidates who are running for office, I hear about all of the different healthcare platforms, but I don't hear enough about health. I hear a lot about disease, and I'm very proud of Herbalife in the fact that we are taking on an issue straight on. Strong top-line growth, enhanced profitability, accelerating new sales leaders' trends.

Getting Mexico turned around, built basically on a strong foundation. Our Spanish-speaking South American business has incredible momentum. Brazil gaining traction behind its transition to be a more balanced mix of the (inaudible). Our U.S. marketplace, which many people told us when we went public was going to be just kind of a forgotten market to us. It's resilient and it is growing, and despite of economic softness.

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We are seeing turnarounds in parts of Europe, and we have a tremendous eye on Eastern Europe for expansion. Greg will be going on a trip there very soon. We are building our IT platform which will offer geographic expansion and acceleration in 2009. That is a big, big deal for us.

And our strength in Asia, which I will be visiting -- I will be doing five cities in the next two weeks in Asia -- is beyond and behind the growth in Taiwan and China.

Herbalife, as you know, is a momentum-driven business and some distributor financial statistics for you to consider as you think about us is it took us 25 years to get to 25 Chairmen's Club members. In the past three years, we have added 10 additional members for a total of 35. It took us 21 years to get to \$1 billion in sales. In the past six years, we've doubled that to over \$2 billion in net sales.

We have a geographically-balanced business which is experiencing strong growth. We have a business model that enables operating margin expansion when investments are made into high ROI projects. And it is a business that generates tremendous free cash. Over the past three years, we have experienced EPS growth in excess of 20% per year, and we continue to manage our capital structure to provide increased returns to shareholders.

So, as I said in the beginning, I want to thank you for your support. We are excited about the Herbalife of 2008, and as we say in here, it is the year to dare to be great. Thank you.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect.

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