

# FINAL TRANSCRIPT

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## **HLF - Q3 2009 Herbalife Ltd. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Michael Johnson**

*Herbalife Ltd. - President & CEO*

**Brett Chapman**

*Herbalife Ltd. - General Counsel*

**Des Walsh**

*Herbalife Ltd. - EVP*

**Rich Goudis**

*Herbalife Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Tim Ramey**

*D.A. Davidson & Co. - Analyst*

**Doug Lane**

*Jefferies & Company - Analyst*

**Chris Ferrara**

*BAS-ML - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the quarterly earnings conference call for Herbalife. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session and instructions will follow at that time. (Operator Instructions). A reminder, this program is being recorded.

I would now like to introduce your host for today's program, Mr. Michael O. Johnson, Chairman and CEO. Please go ahead.

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**Michael Johnson - Herbalife Ltd. - President & CEO**

Good morning, and thank you everyone for joining our third quarter 2009 earnings conference call for Herbalife. With me today is our Company's Executive Vice President, Des Walsh; Richard Goudis, our CFO; and Brett Chapman, our General Counsel. I'd now like to turn the call over to Brett to read the Company's Safe Harbor language.

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

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 the risks associated with these forward-looking statements and with our business.

In addition, during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements as compared to the US Generally Accepted Accounting Principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures. We believe these non-GAAP financial measures assist 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 third quarter press

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release containing a reconciliation of these measures. Additionally, when management makes reference to volume during this conference call, we are referring to volume points. Now I will turn it back to Michael.

**Michael Johnson** - Herbalife Ltd. - President & CEO

Thanks, Brett. We had a really strong third quarter. Our results can be summed up simply. Our business is gaining momentum, led by active distributors focusing on daily consumption business methods and recruiting. Yesterday, we reported an adjusted EPS of \$0.85, which exceeded our internal expectations and also beat the high end of guidance by \$0.16. Reflecting this strong performance, coupled with the current positive business trends, we are raising our full year EPS estimates by \$0.19, to \$3.19 to \$3.22, and we are providing EPS guidance for 2010 for the first time of \$3.50 to \$3.65.

The stronger than expected third quarter performance was led by local currency sales growth of 7.5% versus 2008, reflecting the resiliency of many of our key markets during difficult global economics times, including some of our largest such as the US, Korea, Brazil, and Taiwan. The broad strength of the quarter in terms of local currency sales growth is best represented by the fact that four of our six regions and eight of our top ten markets experienced growth during the quarter. Among the most exciting stories to us during the quarter was India, which broke into our top ten volume markets, reflecting the focus of our distributors on daily consumption business methods in this large and emerging market, and the return of growth in Mexico, our number two market, in September.

Turning to our reported net sales, we were essentially flat with 2008 as [XF] headwinds had a negative impact on our growth of 780 basis points. Once again, the broad strength of our business was reflected in the fact that eight of our top ten markets reported year-over-year net sales growth, and collectively our top ten markets reported growth of 4.1% despite the negative effect of currency fluctuations in terms of local currency growth. This top ten group was up 12.4%. With the continued weakness of the dollar, we believe the headwinds that we've experienced over the past several quarters has turned around and should provide a tailwind as we exit 2009.

As you know, Herbalife's business model generates a large amount of free cash flow. In the third quarter, we had cash flow from operations of \$105 million. We are in an enviable position with an underlevered balance sheet, and we intend to stay that way. Since the end of the second quarter, we have lowered our net debt by \$38 million to \$94 million while returning \$44 million in cash to shareholders through both our dividend and share repurchase programs.

While other companies are framing 2009 as a year of retrenchment, at Herbalife we remain focused on achieving record volume growth and delivering our second most profitable year in the company's 29 year history. I can tell you that throughout the entire organization, from our Board of Directors through our founder circle and Chairman's Club to our employees and distributors around the world, team Herbalife remains committed to driving volume as we close out 2009. We are excited that we will be able to celebrate our 30th anniversary in March propelled by the positive momentum we expect to carry into 2010.

On a product front, in EMEA we introduced a very exciting new Formula 1 Express meal replacement bar during the third quarter. In the US, we launched the the mango flavored Aloe, which was developed and manufactured in our newly acquired facility here in Southern California. We strive to continually improve our products, and as such we are in the process of reformulating nine key markets in our weight management and targeted nutrition lines. Another key element of our product strategy is the globalization of our portfolio. By the end of 2009, we will have introduced 64 new or reengineered products across 70 countries.

As many of you may remember, early in the year we hosted a weight loss challenge for the sell side analysts in an effort to have them experience one of our successful DMOs that are driving the growth in our business. To make good on our promise to the winner, we'll be on the road next week with a lighter and more nimble team from Jefferies, spending several days meeting with investors in New York and Boston. Frankly, there isn't a better time to discuss the Herbalife opportunity with new and existing investors. We are looking forward to going more in depth about our business trends and strategic initiatives at our upcoming analyst and investor meeting on December 17 in New York City.



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We continue to be very confident about the future of Herbalife. With return of sales growth in local currency during the third quarter coupled with a weaker US dollar, our business is postured to record top and bottom line growth in 2010. Our company theme for the year says it all, guys. We are proven, powerful, and now is the time. With that brief overview, let me turn it over to Des Walsh for some specific updates on the markets.

**Des Walsh - Herbalife Ltd. - EVP**

Thank you, Michael. Our business truly has been gaining momentum as we move toward the back half of 2009. The excitement among our distributors is palpable. I can speak firsthand about that energy as it has propelled me to events and distributor meetings in Seoul, Korea; St. Petersburg, Russia; [Turin], Italy; Prague in the Czech Republic; Jackson Hole, Wyoming; Mexico City, Mexico; and already this quarter, Nanjing, China; Atlanta Georgia; Frankfurt, Germany; and Maracaibo, Venezuela. All in all, in these meetings we saw approximately 75,000 distributors.

Now let me provide highlights from our top markets. Our number one market, the United States, accounted for 22.8% of the company's reported net sales, which grew 4.5% versus the same quarter last year and was ahead of our expectations. We are proud of the fact that unlike many companies, we are growing our US business in 2009. The United States Latin market business represents 69% of the country's net sales and was up 7% versus the prior year. New supervisors were down 5.1% compared to the third quarter last year, but reflecting the strength of this market, the average number of supervisors ordering monthly increased by 13.4% from the same period last year. As we have been indicating for the past year, once the market transitions to daily consumption, we believe that the average number of supervisors ordering becomes a more relevant metric, and we are planning to introduce this metric more broadly to the investment community starting in 2010.

Net sales in the general segment of the US market decreased by 5.3% versus the third quarter. New supervisors were down 18%, and the average number of supervisors ordering during the quarter decreased by 7.3%. However, we are seeing very encouraging signs among one significant segment of the general market in the US. So far in 2009, we have recognized a significantly larger number of new President's Team members from the general market, most of which are growing their businesses using the daily consumption model. We are excited by the prospect of this group leading the return to growth in the 2010 for the general market as they help shift this segment's business focus to daily consumption.

Moving on to Mexico, our second largest market. As you recall, the third quarter is when we anniversary the in possession of the 15% VAT that negatively impacted our net sales beginning in August 2008. Local currency net sales for the quarter decreased 4.2%, and that was slightly better than our expectations. Looking at the composition of the quarter, we were pleased that local currency net sales in Mexico turned positive in the month of September, the first month after the anniversary with a 6.1% increase over the prior year. We believe that this increase validates what we had been saying about the business having stabilized earlier this year, and that we are poised for sustained growth as we exit 2009 and into 2010. New supervisors were down 1.8% year-over-year in the quarter, but like local currency sales, this metric also turned in September and was flat for the first month as we lapped the inclusion of the VAT. An additional sign of recovery in Mexico which we look at internally is new distributor count, which in Mexico were up almost 6% in September, validating to us that distributors are engaged and working the business, resulting in bringing new people into the business.

Now let's turn to China, where local currency net sales increased 10.3% year-over-year. Last year in the third quarter, we began to introduce the club concept due to the strong success the clubs were demonstrating in Taiwan. As we have seen in other markets, the process takes up to 24 months to localize, train, and replicate before we begin to see what we believe to be strong, sustainable growth. At the end of the quarter, we now have approximately 600 clubs in China and this number continues to grow each month. We believe the clubs will enhance our strong business foundation in China.

In addition to the five new licenses we received in July, which brings our total count to 11 provinces, we applied for five new provincial licenses in September. Brazil, which is our fourth largest market this quarter, continues its transformation to the daily consumption model. As a result, local currency revenue increased by 16.2%. And while new supervisors were down 31.9% the



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number of supervisors ordering increased by 10.1%. We believe that these metrics are indicative of the transition we have been talking about for the past few years, and while the metrics are distinctly different from those we see in markets using traditional business methods, Brazil is another good example of why new supervisor growth is not always a metric that directly correlates to or is predictive of volume point growth. As we have said previously, this shift in relevant metrics is something we will be discussing at more length at our analyst and investor meeting in December.

Lastly, let me spend a few minutes discussing with you some of our key markets in Asia-Pac, specifically Taiwan, Korea, and India. Both Taiwan and Korea have increased their adoption of daily consumption methods over the past few years and this continues to be a key driver of their growth. During the third quarter, local currency sales were up 33.9% in Taiwan and 86.7% in Korea. We believe that a significant factor in this growth is the expansion of clubs in both markets.

India's a market whose growth opportunity brings us great excitement. India broke into the top 10 volume market this quarter, with sales growth in local currency of 130.3%. We just recently recognized two new President's Team members from India. We believe that this important emerging market is growing due to the successful replication of the nutrition club model. We have seen a three-fold increase in club since the beginning of the year. We believe that the opportunity within India is significant and that it could become a top five market for Herbalife within the next few years. Direct sellers have always been challenged with growth in this market, but the burgeoning growth of our business in India is a shining example of the daily consumption model that allows our distributors to penetrate deep into existing markets, creating expanded and easier access to our products and business opportunity.

We anticipate opening two new markets, Vietnam this week and Paraguay next week. Vietnam, with 87 million people of which 33% were below the age of 25 at the time of the 1999 census, which is 50% bigger than Korea and has the potential to be a top ten market for us in the next few years.

As we have been discussing with you for the past several quarters, we believe that there is an ongoing transformation within our business. The daily consumption model has taken hold in some of our largest markets and it continues to expand into more of our existing markets every day. Nutrition clubs in their various forms around the world are driving a significant portion of our volume growth. While we talk about the localization of clubs across the globe, it is important to understand that we are in the early innings of their growth in most of our markets.

Now let me pass the call over to Rich to review the financials.

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**Rich Goudis - Herbalife Ltd. - CFO**

Thanks, Des. We'll start the financial portion of our update this morning by giving you some of the highlights of our third quarter results compared to the guidance we provided on August 3rd, and we'll conclude with a review of our guidance for the fourth quarter and for 2010. In summary for the third quarter, adjusted EPS of \$0.85 was \$0.16 above the high end of our third quarter EPS guidance range, reflecting higher local currency sales growth which contributed \$0.11, the favorable impact of country mix and currencies which was \$0.01 net of hedging, lower than expected operating expenses of \$0.03, and a slight improvement in our effective tax rate contributed \$0.01. Local currency sales growth was the principal contributor to the EPS upside in the quarter as we finished the quarter with a 7.5% increase in local currency sales versus the prior year.

Eight of our top ten market reported local currency sales growth of 12.4%, which to me indicates the broad strength of our revenue growth and the underlying volume point momentum in our business as we exit 2009. The strong local currency growth for the Asia-Pacific region and in particular Taiwan and Korea was a meaningful contributor to our upside in the third quarter. The favorable results in these markets reflect their successful adoption to the nutrition club DMO, primarily in the form of commercial clubs.



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In addition, we saw stronger than expected growth in markets such as Malaysia and India. The growth nature of these markets has been primarily driven by the successful transition to daily consumption business models as well. Most importantly, our top two markets, the US and Mexico, both exceeded our local currency sales expectations contained within our guidance for the quarter. As Des mentioned earlier, Mexico, while down 4.2% in the third quarter, turned positive in September as we anniversaried the VAT. Net sales in the US grew 4.5%, driven by continued success within the Latin market, whose net sales were up 7% in the quarter. We believe this growth in the US favorably differentiates us from many of our peers.

Since going public late 2004, we have disclosed new and total sales leaders as a key metric for our business. As Des alluded to earlier, in markets where we experienced a shift toward daily consumption, we believe a metric that reflects sales leader activity is more relevant. As such, we plan to introduce a new metric beginning next year called sales leader activity which reflects the monthly average of sales leaders who order during the quarter.

For the third quarter this year, let me summarize our regions using this new metric. Asia-Pacific was up 16%; North America, up 7%; South and Central America, up 7%; both China and EMEA were flat; and Mexico was down 1%, all versus the same period in 2008. And for the overall company, we were up 5% versus 2008. You'll hear more about this new metric at our Investor Day next month.

Excluding the effects of a tax contingency reversal and a tax settlement, our effective tax rate for the quarter was 30.2%, which was slightly better than our guidance of 31% to 32%. In the third quarter, our company produced cash flow from operations of \$105 million, returned cash to investors of \$44 million through a quarterly dividend of \$12 million and share repurchases of \$32 million, and we invested \$15 million in capital expenditures and paid \$10 million for certain assets acquired in manufacturing. We reduced our debt by over \$4 million during the quarter, and as a result the company's net debt was reduced by \$38 million sequentially to \$94.4 million. We remain conservatively capitalized at 0.8 times debt to EBITDA. Our third quarter results reflect the envious position we are in during these challenging economic times -- local currency growth, improving business metrics, stronger than expected earnings, and strong free cash flow.

Now let's discuss our guidance, as a key assumption in our guidance for 2009 and 2010 is how we are treating Venezuela. As you all know, currency controls by the Venezuelan government have tightened over the past several years and has significantly worsened since earlier this year, making it difficult to repatriate cash from the marketplace at the official rate. Over the past three years, our cash balance in Venezuela has increased to nearly \$58 million at the official rate.

In October, we attempted to participate in a Venezuelan government backed US dollar bond offering and we did not receive any allocation. The offering started at \$3 billion, increased to \$5 billion, \$19 billion was ordered, and all non banks that ordered over \$1 million were allocated zero. We took this as a signal that our access to dollars at the official rate would not improve. However, this bond offering did lower the parallel rate significantly and, therefore, we felt it prudent to take a proactive approach and repatriate all our excess cash in the fourth quarter, which is approximately VEB100 million at an exchange rate which is unfavorable to the official rate. We view this repatriation of excess cash as a one-time item. As such, we expect to record a write-down in cash during the fourth quarter of approximately \$30 million, and we anticipate recording a P&L expense for this repatriation during the fourth and first quarter next year. This one-time item is not included in our 2009 or 2010 guidance.

Reflecting the true economics of our business in Venezuela, any new cash created in 2010 in Venezuela is assumed to be repatriated monthly at an exchange rate that is less favorable than the official rate. This assumption has an unfavorable bottom line impact which is already included in our guidance for 2010 of approximately \$0.20. Further, we believe that Venezuela may be deemed hyperinflationary in the next quarter or two, and if so, the ongoing net income from Venezuela should be no different from that assumed in our guidance provided that the parallel rate is no worse than VEB6.5 to the dollar. We have not seen other companies take this approach, and therefore, we are making our guidance assumptions very clear, as to provide investors the appropriate earnings from which to develop their valuations.

For the fourth quarter guidance, it reflects current business trends, coupled with the opening of Vietnam and Paraguay, spot FX rates of late September, along with modification to our company's marketing plan. We expect volume points to be up 8.5%



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to 9.5% above prior year, net sales to increase 15.5% to 16.5% compared to prior year, we expect our effective tax rate to be in the 30.0% to 31.0% range and therefore our guidance for the fourth quarter is in the range of \$0.88 to \$0.91. For the full year, we are increasing guidance for volume growth to be between 1% to 1.5% above our record 2008 performance. We are very pleased that we are on track to set a new record for volume despite the difficult global economic environment this year. From a net sales perspective, we revised our guidance upward to a range of negative 2.5% to negative 3%. We expect our effective tax rate to be in the 30.5% to 31.0% range for the full year, excluding any adjusting items. In terms of EPS, we are raising our guidance range for the year to \$3.19 to \$3.22, which reflects an increase from our previously announced guidance. And finally, we believe our capital spending for 2009 will be in the range of \$60 million to \$65 million.

For 2010, the company is initiating EPS guidance in the range of \$3.50 to \$3.65. We expect volume growth in the 5% to 6% range as the daily consumption model continues to expand into new markets around the world, coupled with the opening of six new markets next year and the positive impact from the changes in the company's marketing plan. Net sales are expected to grow in the 11% to 13% range, driven by a combination of volume growth, favorable currency translation, and pricing. Note that again we are using a late September spot FX rates for our 2010 currency assumptions. We expect our effective tax rate to be in the 30.0% to 31.0% range for the full year, excluding any adjusting items. Also included in our guidance next year is the utilization of \$50 million of our excess cash to repurchase our common stock in the open market from time to time. We are anticipating capital spending for 2010 to be in the range of \$65 million to \$75 million, which includes capital to improve and expand our new US manufacturing facility, investments in technology to improve the distributor experience, and also capital to open six new countries in 2010.

We look forward to having the opportunity to review our 2010 business plans more thoroughly with you in December at our analyst meeting. We plan to spend time discussing with you our growth assumptions, derived from the ongoing transformation of our business to daily consumption focused DMOs and our shifting key metrics from new supervisors to activity metrics that better correlate to a more retail daily consumption focused business. Additionally, we will review our recent manufacturing acquisition coupled with our vertical integration strategy and our new product pipeline.

This concludes our prepared remarks and we'll now open the call for your questions.

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## QUESTIONS AND ANSWERS

### Operator

Certainly. (Operator Instructions). Our first question comes from Tim Ramey from D.A. Davidson.

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### Tim Ramey - D.A. Davidson & Co. - Analyst

Great quarter. You talked a little bit about reformulating nine products, and there's been some buzz about maybe changing packaging as well. Is there anything that you can comment on on packaging changes for the key Formula 1 products?

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### Michael Johnson - Herbalife Ltd. - President & CEO

We're going to give you more insight into that in December and early next year at our 30th anniversary celebration in Orlando, Florida, we're going to roll out a completely repackaged line. That will be a variety of things -- delivery systems, different packaging sizes, and a different packaging look. So we're going to save some of that for a little while. In fact, a lot a while. Our ongoing upgrade is to reflect, frankly, new science, new technology that's out there and we are looking at -- constantly looking at the architecture of these products to upgrade them. We've launched two new products this year already. We're really excited about what is taking place. We just showed the Board eight more new reprogrammed products. We're working closely with distributors to make sure that these are well understood and accepted by our distributor base in the market and easy for the



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consumers to understand. We're going to market them with two or three key phrases for each and every one of them. New and improved, similar to what you see in a traditional consumer package good company, and that's what you'll see out of us coming now and in the future.

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**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Just a quick follow-up, Michael, while I've got you. You mentioned your balance sheet is strong, which it is, and you want to keep it that way. Why not use a little bit more of that capacity for share repurchase? Rich seems to think the stock price is going higher. Do you disagree or -- ?

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**Michael Johnson** - *Herbalife Ltd. - President & CEO*

That's up to the PE ratio of the stock right now, how high we get. It's not all PE. It's supply and demand. We're going to repurchase shares throughout the year. We've got a lot of current facility to do it. We've got \$300 million authorized to us and then an additional \$50 million in cash. So we're confident that we'll be returning money to investors all throughout the year.

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**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Thank you.

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**Operator**

Thank you. Our next question comes from Doug Lane from Jefferies and Company.

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**Doug Lane** - *Jefferies & Company - Analyst*

Hi, good morning, everybody. Des, you talked about Asia and the daily consumption model, but the numbers there are just really terrific. I was wondering if there was something else going on there from a macro perspective that's driving such strong growth in Asia-Pacific including China.

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**Des Walsh** - *Herbalife Ltd. - EVP*

As with everything, it's always a combination of factors. There's never only one thing that drives that growths. Clearly we believe the expansion of the club market is the key factor. There's many meetings taking place, HOMs, because obviously the clubs are creating the excitement. The excitement triggers more meetings. More meetings mean more attendees and you've got engaged distributors working together. So really, I think it's a combination of all those factors.

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**Doug Lane** - *Jefferies & Company - Analyst*

Can you give us from where you sit today how you think Vietnam will impact things? That's a large population market. Is that going to be one of those markets that just takes off with a bang and then there's backing and filling a few quarters out or do you think it will be a slow build?



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**Des Walsh** - Herbalife Ltd. - EVP

So, we are very confident about the future of Vietnam. What's particularly encouraging, Doug, is that we've got many distributors who are actually going there and will begin operating nutrition clubs from the beginning. In fact, many of you know Jack [Devulich]. Jack Devulich is arriving there in a couple of days. He'll be conducting nutrition club trainings, and so nutrition clubs will be a very significant part of that business from the outset. That gives us great confidence about the stable long-term growth there.

**Doug Lane** - Jefferies & Company - Analyst

That makes sense. Lastly, we haven't talked about Eastern Europe for a while. Continues to be a robust direct selling market for many people. Any plans to ramp up the entry into Eastern Europe here?

**Des Walsh** - Herbalife Ltd. - EVP

So just as other companies, we're actually seeing growth in Eastern Europe as well. Poland, one of the significant markets, very strong. We have recently hired a new head of Russia and the CIS market, very strong individual, so we are certainly investing and looking for further growth in Russia, CIS, and Eastern Europe.

**Doug Lane** - Jefferies & Company - Analyst

Do you still think that you're underrepresented there?

**Des Walsh** - Herbalife Ltd. - EVP

Very much so, Doug, no question.

**Doug Lane** - Jefferies & Company - Analyst

Okay. Thank you.

**Michael Johnson** - Herbalife Ltd. - President & CEO

Thanks, Doug.

**Operator**

Our next question comes from Chris Ferrara from Banc of America.

**Chris Ferrara** - BAS-ML - Analyst

Hey, guys. Just wanted to get a sense for a couple of things with respect to your next year's volume growth guidance. First, I guess what lift are you assuming for the combination of all the six new markets you guys are going to be entering?



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**Michael Johnson** - Herbalife Ltd. - President & CEO

Chris, I think the six new markets that we're looking at next year are more strategic fits where they're in neighboring countries or they're in markets where our distributors want to go, specifically in the Middle East. I think that probably the bigger impact to next year's volume growth is our assumption of what Vietnam will do. Obviously we're opening it with just two months in 2009. We'll have the full impact next year. And we're quite excited about Vietnam. It's got a very youthful population. They seem very accepting to direct selling. We're getting meeting minute updates daily here, the last couple days, and it seems very exciting as this starts. We'll probably have more contribution from Vietnam next year than we do the other six because they'll open throughout the course of next year.

**Chris Ferrara** - BAS-ML - Analyst

You don't want to put a number on that, I guess, percentage?

**Michael Johnson** - Herbalife Ltd. - President & CEO

We got [chintzed] a few years ago, as you recall -- we used to give out guidance by region and then we had to reguide for Mexico and we lost 20% plus market cap in a day, so we got out of that practice.

**Chris Ferrara** - BAS-ML - Analyst

Understood. That makes sense. Maybe you'll go down this road a little bit I guess. Can you talk about what broadly you're assuming as far as sequential trends for key markets, I guess in particular North America and Mexico? I'm not asking what you actually think they're going to grow, but is your 5% to 6% volume growth for fiscal 2010 implying that current sequential trends stay where they are and that growth becomes more a function of the comp? Or are you actually assuming that sequential trends in those big markets actually improve from here?

**Michael Johnson** - Herbalife Ltd. - President & CEO

Clearly, I think Mexico, I think the sequential trends we would expect would continue to improve. I think this market has shown tremendous resiliency in the last year, having to work through not only the global economic and local economic issues, but also the 15% VAT. They established a very strong base early in the year of 40 million to 42 million volume points a month. I think you continue to see that sequentially grow this year. We're doing some very interesting things which we'll go into more depth at our Investor Day, that we believe will open up more of the market and create more access to our products. So we're definitely looking at more sequential growth in Mexico next year. On to the US, as Des alluded to, we're starting to see the embracement from our general market of the daily consumption model. And as you know, over the last couple years, that's been a drag on our numbers in the US, and if that turns positive next year, that could bode very well for the US numbers.

**Chris Ferrara** - BAS-ML - Analyst

Great. Thanks. And then I guess can you just give a little bit more color I guess around SG&A. I think we talked a little bit about what the effect was of Venezuela was in the quarter, but how should we think about SG&A and your general cost structure as we move into fiscal 2010?

**Rich Goudis** - Herbalife Ltd. - CFO

In the third quarter there was a \$6.5 million shift between cost of sales and SG&A, so that should be noted. As it relates to how we look going forward, we expect to get leverage out of SG&A. We will disproportionately invest behind distributor facing

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activities. That's pretty much a tenet here. And we typically try to leverage our fixed components, the Herbalife staff. So I would expect to see and for you to model year-over-year improvement in leverage in SG&A.

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**Chris Ferrara** - *BAS-ML - Analyst*

Great. Thanks a lot, guys.

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**Michael Johnson** - *Herbalife Ltd. - President & CEO*

Thanks, Chris.

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**Operator**

Thank you. (Operator Instructions).

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

If there's no more questions, we'll just close with Michael, then.

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**Operator**

I'm not showing any further questions at this time.

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**Michael Johnson** - *Herbalife Ltd. - President & CEO*

Well, thank you everybody for joining us. Back in January, we set a goal for 2009 and it was really simple. Let's beat 2008. The rest of the world was turning upside down and we decided to turn right side up. We can't control some of the things in our business. The FX volatility -- that is one area that we just can't control. So our efforts have been focused on the areas of the business that we can influence and control. We set out a goal to have more meetings, focus on daily consumption, expand the product, enhance the brand, and continue to improve service to our distributors. As you heard today, with the strong volume point performance in the third quarter and our outlook for the fourth quarter, we are much more optimistic that we'll achieve a record volume point in 2009. In fact, our guidance suggests growth of approximately 1.5%. Turning to the bottom line, our guidance indicates that we'll have our second most profitable year in the company's 29 year history. Not bad considering the times. If we were not impacted by unfavorable FX fluctuations for most of 2009, we would have been also been able to post record EPS along with our record volume. We are very proud that even during the most challenging economy of our lifetimes, Herbalife distributors and our employees have been able to weather this storm better than most.

As we look to 2010, we will continue to invest in the tools, the training, resources necessary to further support distributors' success. We'll expand our business into new countries and achieve deeper penetration in our existing markets. We believe this should lead to an ongoing positive momentum in our volume trends. We will also continue to improve our cost structure while shifting our spending towards distributor activities, which should help drive growth and create higher free cash flow.

We have a tremendous business, led by entrepreneurial independent distributor in 70 countries, now 72 around the world. As we close out 2009, we will continue to focus on areas of the business that we can favorably impact -- improving our products, business opportunity, brand, and image to position us for strong top line growth in 2010. I look forward to seeing a lot of you at our meetings next week in New York and Boston and again in December. Come on and join us. We'll open up a brave new



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world of Herbalife to you. To continue -- we'll continue our discussions with you and the Herbalife opportunity. Thanks everybody. We appreciate it. Thanks for joining us on our earnings call today.

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**Operator**

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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