

**HERBALIFE NUTRITION LTD.**

**Moderator: Eric Monroe  
August 1, 2019  
2:30 p.m. PT**

OPERATOR: This is Conference #: 8993169.

Operator: Good afternoon, and thank you for joining the Second Quarter 2019 Earnings Conference Call for Herbalife Nutrition Ltd.

On the call today is Michael Johnson, the company's Chairman and CEO; John DeSimone, the company's Co-President and Chief Strategic Officer; Dr. John Agwunobi, the Company's Co-President and Chief Health and Nutrition Officer; Alex Amezcuita, the Company's Senior Vice President of Finance, Strategy and Investor Relations; and Eric Monroe, the company's Director, Investor Relations. I would now like to turn the call over to Eric Monroe to read the company's safe harbor language.

Eric Monroe: Before we begin, as a reminder, during this conference call, we may make forward-looking statements within the meaning of the federal securities law. These statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated.

For a complete discussion of risks associated with these forward-looking statements in our business, we encourage you to refer to today's earnings release and our SEC filings, including our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

Our forward-looking statements are based upon information currently available to us. We do not undertake any obligation to update or release any

revisions to any forward-looking statement or to report any future events or circumstances or to reflect the occurrence of unanticipated events except as required by law.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. generally accepted accounting principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures.

We believe that these non-GAAP financial measures assist management and investors in evaluating our performance and preparing period-to-period results of operations in a more meaningful and consistent manner, as discussed in greater detail in the supplemental schedules to our earnings release.

A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release submitted to the SEC. These reconciliations, together with additional supplemental information, are also available at the Investor Relations section of our website, [herbalife.com](http://herbalife.com).

Additionally, when management makes reference to volumes during this conference call, they are referring to volume points. I will now turn the call over to our Chairman and CEO, Michael Johnson.

**Michael Johnson:** Good afternoon, everyone. Thank you for joining us for our second quarter 2019 conference call. I'd like to start by stating the obvious, that the fundamental of our business are strong, and we are confident in the direction of Herbalife Nutrition. Our performance demonstrates the strength of our geographic diversity as we reported the second highest world-wide quarterly volume points in company history, and this is in light of our challenges in China.

Our second quarter results were within our guidance range on both the top and bottom line. We delivered year-over-year net sales growth in 4 of our 6 regions.

We reported year-over-year net sales growth in 8 of our top 10 countries. Three of our regions; NAM, EMEA and APAC set all-time quarterly volume point records. However, we recognize China is an issue. And we have a plan in place for this working. Let's look what we are doing to stimulate the Chinese market.

First, we expanded our e-commerce platform late in the second quarter to give our China retail customers the ability to purchase products directly from the company. This is the first stage of a larger project where we are working in partnership with Tencent, who you may know is a leading e-commerce and social media platform, to establish a social e-commerce channel in conjunction with our established business model.

The full platform is expected to launch in the fourth quarter of this year. Second, we have improved the economics for our service providers with a focus on enhancing the profitability and activities of Nutrition Clubs.

And third, we are executing on our China Growth and Impact Investment Program with exciting branding opportunities, including our official nutrition sponsorship of the International Champions Cup. The ICC is the world's premier Annual Summer Soccer Tournament, featuring 12 of the top clubs in the world, including Juventus and Manchester United. They're playing matches across North America, Europe and Asia.

The tournament is televised globally, including CCTV in China. Our products will be available to the players and visible on the sidelines during the broadcast. As you can see we're focused both at corporate and with our team on the ground in China to improve our position in this important market. We started to see improvement toward the end of the quarter and expect to see continuing improvement in the back half of the year.

While we are focused on the business in China, we're also doing some exciting things in other markets to drive results, including North America. Just this week, we launched the Nutrition Club after all U.S. club operators at our Annual Extravaganza, which was attended by more than 26,000 distributors.

This suite of tools, called HN MyClub, makes it easier to own and operate a nutrition club by helping operator setup, manage and grow their nutrition club businesses.

We announced the development of a customer-facing nutrition club app, where customers will be able to stay connected with their nutrition club and their distributor, browse the club menu, preorder and pay from their mobile device.

This customer app, called Engage, was released to a beta group this week, with a full launch expected in the fourth quarter. These apps will make consuming an Herbalife shake, tea, aloe or coffee in one of our Nutrition Clubs a more enjoyable experience.

John DeSimone will tell you about some of the global successes we are having in other key geographies, such as Asia Pacific and EMEA. We're also working on other exciting branding and promotional initiatives that Dr. Agwunobi will share with you later in the call.

In closing, I want to reiterate what I said at the beginning of the call. The fundamentals of our business are strong, and we are confident in the positive direction of Herbalife.

Now let me hand this over to Alex, John, and John, who will talk in more detail about our results.

Alexander Amezquita: Thank you, Michael. Volume points for the second quarter were approximately \$1.5 billion and represents the largest quarter in terms of absolute volume points in the company's history.

Note that adjusting for changes in volume point values that we discussed on prior earnings calls, this was the company's the second largest quarter in history. We experienced net sales growth in 4 of our 6 regions, and 8 of our top 10 countries. As expected, foreign currency exchange rates continued to be a headwind.

Second quarter net sales of \$1.2 billion declined 3.5 percent on a reported basis compared to the second quarter in 2018. Adjusting for foreign exchange impact and excluding Venezuela, net sales for the second quarter increased 70 basis points over the same period 2018.

The second quarter performance reflects the strength of our geographic diversity, as China works through its recovery from the impact of the 100-day review. Excluding China, net sales increased 5.4 percent compared to the prior year period. And excluding China and Venezuela, constant currency net sales increased 9.6 percent year-over-year.

We reported net income of approximately \$76.5 million or \$0.54 per diluted share and adjusted earnings per adjusted diluted share were \$0.70, which includes expenses related to the China growth program of approximately \$4 million or \$0.02 per share.

As a reminder, we will continue to make you aware of the amount of expenses related to the China growth program that is included in our reported and adjusted earnings as this expense is excluded from our guidance. The impact of currency fluctuations represented a year-over-year headwind of approximately \$0.09 on results for the second quarter.

Reported gross margin for the second quarter of 80.4 percent decreased by approximately 130 basis points compared to the prior year period. The decrease was primarily driven by the unfavorable impact of foreign currency fluctuations and country mix, partially offset by the favorable impact of price increases.

Second quarter 2019 reported an adjusted SG&A as a percentage of net sales were 38.5 percent and 37.0 percent, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 28.3 percent, approximately 60 basis points higher than the second quarter 2018, which continues to be impacted by investments in technology, and particularly, a shift to cloud-based infrastructure.

Our second quarter reported effective tax rate was approximately 37.7 percent and our adjusted effective tax rate was 33.0 percent, which was higher than

our expectations primarily due to the impact of country mix and unfavorable discrete events. Now let me share the updated guidance. Worldwide volume point guidance for 2019 has been updated to a range of 0.5 percent to 5 percent growth.

Net sales guidance for the full year has also been updated, and we are now expecting a range of down 1.7 percent to up 2.8 percent. This range is reflective of the volume point adjustments and country mix as well as a 240 basis point impact from foreign currency fluctuation.

Full year reported diluted EPS is now estimated to be in a range of \$2.11 to \$2.51, and adjusted diluted EPS guidance is expected to be in the range of \$2.40 to \$2.80. Full year reported and adjusted diluted EPS includes a currency headwind of approximately \$0.27, excluding the impact of Venezuela.

Our effective tax rate guidance increased 200 basis points to 31 percent to 35 percent on a reported basis and increased 100 basis points to 28 percent to 32 percent on an adjusted basis.

For the third quarter 2019, we estimate volume points to be in a range of down 1.5 percent to up 4.5 percent. Net sales are expected to be in the range of down 2 percent to growth of 4 percent, which includes an approximate 60 basis points currency headwind versus the prior year.

Third quarter reported diluted EPS is estimated to be in a range of \$0.44 to \$0.64 and adjusted diluted EPS to be in a range of \$0.50 to \$0.70. Reported and adjusted diluted EPS includes a projected currency headwind of \$0.06 compared to the third quarter of 2018, excluding the impact of Venezuela.

Our effective tax rate guidance for the third quarter is 32 percent to 36 percent, and our adjusted effective tax rate is expected to be in a range of 28.5 percent to 32.5 percent.

We currently have \$1.3 billion of cash on hand and approximately \$675 million of debt from our convertible notes is due on August 15. It is our

intention at this time to pay off the \$675 million due of the convertible notes with cash on hand.

I will now turn the call over to John DeSimone.

John DeSimone: Thank you, Alex. Before speaking about specific regional performance, let me repeat something Michael said earlier, that one of the key assets of Herbalife is our geographical diversity.

And this is evidenced by our performance in Q2, in which we achieved near record results despite the volume of China being down 37 percent. In fact, excluding China, volume points grew 5.6 percent in the quarter, net sales grew 5.4 percent and constant currency net sales grew nearly 10 percent.

We will continue to benefit from our geographic diversity while we acutely focus on improving China. We have seen moderate improvements in June's volume performance compared to our overall Q2 China performance, and believe Q3 will show an improving trend.

It's, obviously, taking time as a number of the approved meetings and attendees continue to expand. But we are still below the level seen prior to the 100-day review. These meetings are critical in the short term to rebuild new cohorts of members to offset the impact of the 100-day review.

However, while we continue to rebuild the traditional meeting-based business, Michael spoke about a few of the changes we made in China that we believe will be good for the business in the medium to long term, like improved economics for the service providers, and a consumer ordering platform, as well as other initiatives previously mentioned.

We believe these changes present a meaningful opportunity for volume growth in the future. Moving to other key markets, the U.S. business had a strong quarter, recording the largest quarter in its history in both terms of net sales and volume points, with net sales and volume points both increasing 6 percent compared to the second quarter of 2018.

Volume point trends continue to accelerate on a 2-year (stack) basis. The volume point value test we began last year on a few products benefited the comparison of the quarter by approximately 150 basis points.

Turning to Mexico. Despite volume being down in the quarter, the region increased in both reported net sales of 2.5 percent and constant currency net sales of 1.3 percent. As we stated last quarter, there were temporary tariffs placed on our products going into Mexico, for which, we instituted a 2 percent surcharge in order to cover this cost.

Fortunately, since last quarter, the tariffs on our products have been eliminated. Accordingly, we eliminated the surcharge by converting it into a price increase for which our distributors can now earn.

However, there is a near-term negative P&L impact to the company of approximately \$5 million, as the inventory for which we are paid tariffs turned through the system while we no longer collect this surcharge. This should almost entirely run through our inventory system during the third quarter.

The Asia Pacific region reported a 23 percent year-over-year increase in volume points and constant currency net sales. This is the sixth quarter in a row (in) which this region has set a new all-time record high in volume points.

Growth in the region continue to be broad based, led by India, Indonesia, Vietnam, Malaysia and South Korea. India volume increased 36 percent during the quarter, as we continued to add access points and expand our product offering.

Indonesia volume was up 28 percent, Vietnam increased 40 percent, Malaysia 32 percent, and Korea was up double-digits to 10 percent. Of note, the comps for APAC get much more difficult during the back half of the year, as we annualize some very strong growth rates last year, that also include a couple of one-time events.

Looking at South and Central America, in which volume points declined 10.3 percent, which was driven by a 20 percent decline of Brazil. During the



quarter, we did launch segmentation in Brazil, and we are cautiously optimistic that the trends will improve later in the year, most likely Q4.

Turning to EMEA. The region continues its strong growth pattern with volume points increasing 5 percent in the quarter and constant currency net sales increasing 9.1 percent.

Volume point increases for the quarter were broad based and led by South Africa, Spain and Russia. Now let me end my prepared remarks with an incredible statistic. This is now the 37th consecutive quarter of volume growth in EMEA. Congratulations, EMEA.

I will now turn the call over to Dr. Agwunobi to provide an update on some of our growth initiatives.

John Agwunobi: Thank you, John. As we highlighted at our last Investor Day event, and as we have said on prior earnings calls, we have a multipronged strategy that we believe will help drive future growth in our business.

I am particularly passionate about our product strategy, providing our distributors with more product choices and leveraging trends in food and nutrition to help them sell more products to existing customers, to help them appeal to new customers and attract new distributors.

Within this strategy, one of our categories that we've been acutely focused on is sports nutrition. According to Euromonitor data, this \$15.7 billion category is projected to grow at a 5-year compounded annual growth rate of about 10.6 percent, and we are aiming to gain market share in this rapidly growing category.

In the U.S., we launched a new product, Herbalife24 branched-chain amino acids or BCAAs. We launched it this past weekend at our Extravaganza. This product extends our sports nutrition line, creating a more comprehensive portfolio for our competitive fitness enthusiasts and novices.

Our BCAA product delivers 5 grams of branched-chain amino acids, including 3 grams of leucine, which is more than the 2.5 grams required to

stimulate protein synthesis. It helps build and retain lean muscle and supports quicker recovery after exercise. It does not contain caffeine, artificial flavors, or sweeteners. It is gluten-free and is made with non-GMO ingredients.

We've also added a new enhanced protein powder to our Herbalife24 line, featuring a blend of 5 types of protein, along with key amino acids and vitamins, this high-protein, low-carb powder makes it easy to fit into any nutritional regimen.

Featuring 24 grams of protein and only 1-gram of sugar, this product supports lean muscle growth and helps reduce soreness, while improving muscle recovery and repair.

Like all of our Herbalife24 products, this protein powder is NSF certified for sport. Additionally, we have added 2 new flavors of our popular Herbalife24 rebuild strength muscle recovery product to our portfolio. Vanilla ice cream and strawberry shortcake.

With our Tri-Core blend of protein and high-quality carbohydrates, it's a quick and effective way to meet the immediate and long-term needs of both professional athletes and weekend warriors.

Rebuild strength also includes a blend of 3 amino acids, along with select vitamins and minerals. And for the first time, we introduced our sports nutrition line in one of our fastest growing markets, India, where we launched Herbalife 24 Hydrate in the second quarter. We are working to further expand our Herbalife24 product line in India later this year.

In the second quarter, we produced and hosted the first ever Herbalife24 triathlon, bringing the event to our hometown of Los Angeles, where our company was founded almost 40 years ago. We welcomed more than 2,000 participants, including 900 triathletes from the U.S., Asia and South America.

The Herbalife24 triathlon, Los Angeles was featured in Triathlete Magazine, as one of America's best new triathlons. And we've committed to hosting this event for the next 3 years. We are thrilled to offer this event to the Los Angeles community, bringing a healthy, active lifestyle to LA and beyond.

And returning to what Michael spoke about earlier, Herbalife Nutrition was named the Official Sports Nutrition Partner of the International Champions Cup. While Herbalife Nutrition's partnership with this year's tournament brought matches to China, we're also sponsoring the Women's International Champions Cup, which kicks off in North Carolina on August 15, featuring our company-sponsored team, Atletico De Madrid.

Before the Q&A, I'd like to highlight some of the incredible distributor engagement that we have seen at some of our recent sales events around the globe. As we referenced a few times on this call, this past weekend was our North America Extravaganza, which took place in New Orleans. This event was attended by a record 26,000 distributors, the largest regional event in Herbalife Nutrition's history.

This quarter, we also hosted events for our Russian-speaking markets as well as 2 events in Hong Kong during the second quarter, one for our China service providers, and another for all of our APAC region. Both events in Hong Kong set attendance records for their respective regions.

I personally attended these events, and the engagement, passion and enthusiasm of our distributors that I witnessed firsthand continued to give me confidence in our company's amazing future. So that concludes our comments. Operator, please open the line for questions.

Operator: Ladies and gentlemen, at this time, if you would like to ask an audio question, you may do so by pressing "star" followed by the number "1" on your telephone keypad. Again, that's "star," "1" to ask an audio question. Our first question's from the line of Tim Ramey from Pivotal Research.

Timothy Ramey: I noticed in the Q that you further refined your disclosure on the China marketing plan reserve to \$20 million up from, I think it was \$8 million last quarter. Anything you can say on that other than just as triangulating in on a result? And I assume there was no particular progress on the FCPA matter.

Alex Amezcuita: Thanks for the question. Obviously, I can't say too much more than what is in this disclosure. You are correct that the \$20 million accrual is up from \$8

million in the last quarter. And as you can imagine in these type of matters, there's really not a whole lot more we could say.

I say one other update that as you dig deeper with a finer-toothed comb on the FCPA matter, is that there is some small but important adjustments on that language. You'll notice that last quarter, we were in the process of conducting our own internal review.

We have now conducted – we've completed that review internally. And obviously, those discussions, I can't get into the details of it, but just wanted to let you know that we conducted our own internal review.

Timothy Ramey: OK. And then relative to China, it's not clear if there are any meaningful levers that are being brought to bear that will impact 3Q and maybe 4Q. It sounds like the e-commerce platform really won't be a thing until maybe the fourth quarter or even the end of the fourth quarter.

What should we be thinking about in terms of real levers that are been pulled to help that region get back on track?

John DeSimone: Tim, it's John. So let me see if I can put it into different buckets. Start with the traditional business that's been very meeting-based. As you know from following the industry, the meeting levels and the attendance levels are not back to where they were pre-100-day campaign, but they are progressing.

We're probably from in a total attendance level, at the end of Q2, at about 2/3 of what we were pre-100-day of our review – in terms of attendees, right? Which is more important than number of meetings, so I'm going to just focus on attendees for a second. And that's progressing.

The reason why that's not an immediate inflection is there are basically 2 cohorts that have to be rebuilt. It's the cohort that never existed because of the 100-day review. But it's also the cohort that came in prior to the 100-day review that couldn't do the business, and therefore, dropped out.

And so as you build up, that will continue to build, and we do expect, through the end of the year, to see progression in the base business from that – just from that piece. Now let me work on a couple of other pieces to layer on.

So the e-commerce, think of the e-commerce more in 3 phases. So we actually launched an e-commerce platform that was not with Tencent, that was based on our internal system, June 23 or something close to June 23.

And that's a slow build. That is having the ability for customers to go through this platform and order from us. It is a little clunky, it was the quick way to go-to-market, while we develop a Phase I, kind of, Version 1 with Tencent, which is going to be much more robust, where it's almost a separate e-commerce platform for each of our sales reps and service providers.

Then, there'll be a round 2 with Tencent. So round 1 with Tencent, we're thinking October later this year, but that's layer on to the fact that the meetings are coming in.

So first, the traditional business meeting base; second is the e-commerce site; third is the profitability for SPs that operate – well, it's not just nutrition clubs, but it's a focus in nutrition clubs, which is increasing the economics to those distributors because the economics have been different in China.

That, we believe, will help the club model in multiple ways. But one of the ways (we're trying to) – help the club model in China is to get it out of the big cities into the smaller footprint out in Tier 2 and Tier 3 cities, or at least in the suburbs of the bigger cities. And that's starting to gain some traction.

So those are the big things that will – we're layering on, and it's continuing ideas flowing through- actually a handful of us are flying to China Sunday night to meet with both management and distributors and Tencent to see what other things we can do.

Timothy Ramey: So it sounds like it's progressing. It sounds like there might not be year-over-year growth in the fourth quarter as you previously guided. Is that a fair statement? Do you think it's now pushed out into 2020 to see year-over-year growth?

John DeSimone: I would say, China in Q2 was a little bit below our expectations. Not meaningfully below, but a little bit below our expectations. So that could change the trajectory a little. It doesn't mean necessarily we won't grow in Q4, but it might be Q1. But nothing's changed fundamentally in our long-term outlook in China.

Operator: And our next question is from the line of Steph Wissink from Jefferies.

Stephanie Wissink: Our question relates to the guidance for the year. I mean, you talked about some incremental FX headwinds and a slightly higher tax rate. I'm wondering if we're accounting for the majority of that in the new guidance? Or are there incremental, fundamental changes to the underlying guidance that you want us to be aware of?

Alexander Amezquita: Steph, yes. So we lowered the midpoint of our guidance by about \$0.10. And that – if I just partition out that \$0.10, about half of it is what you indicated about tax and FX.

The other half goes to, primarily, our revised expectations around China that John just talked about. So while clearly within the range of where we thought we were going to be 3 months ago, it's – now that we have 3 months – more months of knowledge, it's just refining where we think the end of the year is going to line up, and how that rolls through our EPS.

Stephanie Wissink: OK. That's great. And then on gross margin, could you just share a little bit more around the effects of country mix? So the decline in China, is that a substantial drag to the gross margin? How should we think about gross margin recovery as China comes back online?

Alexander Amezquita: Right. So China is going to – on the gross profit line, China will have a material impact on pushing that up or pushing that down. As China – as the percentage of our net sales is reduced, which is what happened in Q1, that's going to materially push down our gross profit as a percentage.

As a percentage in Q2, you've seen sequential growth, and that's what that's attributed to as net sales as a percentage of our (over) net sales continues to increase, you'll see that get pushed up.

Now, mind you, that's just – there's a lot of other factors that goes into that percentage number, FX pricing, et cetera. But generally, if you just isolate for the impact of China on gross profit, that's how we'll move that line.

Stephanie Wissink: OK. Great. And then last one on the nutrition club app. I'm curious if you can talk a little bit more about the ease to setting up a center using the app, the efficiency that it offers, your center operator?

It almost sounds a bit franchise-ish, so I'm wondering if you can give us a bit of a peek into what you expect to see in terms of number of centers, the pace of those coming online and the use of this app, particularly in the U.S.? And then also do you think about it internationally?

John DeSimone: This is John. Let me start with the U.S. and go through a little bit of the migration to get to where we are and what we expect. So we launched this tool in beta format in April, and we had a slow build, the purpose of slow build, it was designed to be a slow build so we can work out bugs, but more importantly, get our more senior distributors trained on it. So as other people decide to download and test the tool, there's a lot more knowledge base in the field to help people get started.

And then we made it available to everybody about 2 weeks before the Extravaganza, and then launched on stage, and since that point, the downloads have been tremendous. Our goal is to – by the end of October, to at least have half the clubs in U.S. be on this tool. And I think it's a very achievable goal. And so we're excited about it.

I think – you were at the event, and I don't know if you were there on Sunday when this was launched on stage, but of all the tools that I've seen launched in my time here, this is the one that I thought had the greatest positive reception from the most people and most distributors. And so we're excited about our future, and it was designed – it's not franchisees, by the way, OK?

What it is – it's designed to help small business people, which is what our nutrition club operators are, operate in an efficient, effective way. There are – I want to say 19, 20 different nutrition club models even within the U.S. and this is designed to handle all of them.

So I think that's one of the big advantage of this tool. It was created with a design in mind that we're not going to force it on people, that we want to design a tool that people want to use.

That was kind of the underlining premise, the foundational premise of this tool, and I think that's been successful. And I think when we meet – discuss on next call, you'll see that there was a ton of pull from it that way. And that means to me that other – if it's a tool that was created effective that people want to use, then other regions will want to use it.

John Agwunobi: And John, if I could just add. This is Dr. A. It's also a very customizable tool. In other words, each nutrition club operator can put in their own particular menus, their own particular shakes, it doesn't try to standardize everybody all the time. It's not a franchise model.

Operator: And our next question is from the line of Doug Lane from Lane Research. Doug?

Douglas Lane: I'm very interested in this e-commerce that you're developing for China. And just to get some more color on that, is e-commerce going to be a discrete channel for you in China? Or is it really just a tool for your existing channels in China?

John DeSimone: So it's a tool for existing channel in China, except it's a tool for which our sales reps and service providers' customers can order directly from the company, which is not – we've had e-commerce in China, which is the only people that ordered were our own sales reps and service providers. So this is an opportunity for customers to order directly from us, which allows for greater product access and a lot more efficiency in the channel.



And it's something that's pretty – it's China – their consumers are incredibly technologically savvy, and quite frankly, this is something that was missing from our model. It's – with the 100-day review, it's kind of offered us an opportunity to put this in.

Douglas Lane: No, it makes sense. But I mean, so the customer orders, you'll ship directly to the customer now. Will you book full retail price in your sales line? Or (will) – still be a wholesale price and then will there be a markup (going) to a distributor somewhere?

John DeSimone: So we want our distributors to still get the economics. It won't change the accounting for us. So for us, if you are trying to do a model, the – I believe, the accounting, the debits and credits, all go to the same line regardless of whether the consumer buys directly from us or a distributor or sales reps buy directly from us.

Douglas Lane: OK. Got it. And just lastly, North America continues to be upside at least versus my model. So I think this is the fifth quarter of pretty good numbers there. Can you elaborate a little bit on what's driving the growth in North America? And is some of that what you're doing in North America translatable to other geographies?

John DeSimone: So let me answer the first question, which is yes, of course, what we're doing in the U.S. can be transformed to other geographies. I think one of the – so if I were to tell the story from scratch on North America – look – North America went through a lot of change. As you know, our distributors use those changes to build a better business with preferred members and segmentation and the 2K being the primary drivers of that change.

I say that because I don't think it's dissimilar from what we're doing in China right now, which is there is an event. We're using the event to make the business stronger, and I think we have a history of being able to prove that we can come out on the other side stronger.

So in addition to the segmentation, the preferred members in the 2K, it's nutrition clubs. We had our latest Chairman's club come from a small group of nutrition clubs in rural America. And so I think the nutrition club model is

really strong in the U.S. And that's something that's already, obviously, migrated out into a lot of other countries. And so I think you stop layering, and hopefully the expansion of the POS tool and expansion of segmentation, these things will in fact have an impact on the rest of the world. It's not an overnight process, it's a build.

Operator: Ladies and gentlemen, as a reminder, once again, if you'd like to ask an audio question, you may do so by pressing "star" followed by the number "1" on your telephone keypad. Our next question is from the line of Beth Kite from Citi. Beth?

Beth Kite: I'd like to ask you one more question on China, if I may. It sounds like from the discussion today that it's – is it accurate to say that it's not a fundamental issue in terms of a real change to the appetite by the Chinese consumer for weight management, weight loss, nutrition products and more a timing until you get meetings back online, until you get the pipeline of distributors that you might have lost coming in back into the system?

Because I think there is a little bit of a concern on the investor side that the product demand is just not there for a while into the future, given the investigation and the press. So if you could speak to that, and my perception of the discussion so far in this conversation.

John DeSimone: Sure. By the way, that's a good question. We do our own analysis that suggests that it's very meeting based. The number of attendees in meetings are down about the same volume. So I don't think fundamentally anything has changed. Certainly, the need for our product hasn't changed. There is a consumer sentiment as you – we believe it's short-term, and some of the things that we're doing on the e-commerce site, nutrition clubs help overcome that.

The only thing I would add to what you suggested is, I don't know, if meetings will ever get back to its – where it was, right? We can assume it will and we believe it will, but there is no guarantee it will. Right now we're at about 2/3 of level. There are certain big cities right now where they're still not approving meetings. We assume that that, over time, will change.

But certainly from what we're seeing based on our member activity, we believe the consumer demand is there. But again it's definitely there long-term, our products solve a real issue.

I mean China – China has got this Healthy China 2030 initiative. They recognize that preventive measures, for good nutrition and activity is really, solves, a real economic crisis on healthcare. And so I do think that this is an important issue, and I think we can be part of that for the long-term.

Beth Kite: Perfect. Now, John or maybe this is for Alex. If we could talk about the sort of decision that came through today in the Q, and then your prior comments that the convertible debt is going to be paid off, and it doesn't sound like a refinancing event is on the horizon in the next 15 days.

So can you share with us how you think about the second half? I assume there is no buyback activity in second half guidance. Might you be opportunistic, might buybacks be a 2020 event? And tied to that, are you able to share an operating cash flow forecast for 2019?

Alexander Amezquita: Sure. So let's take the easiest one first. So, in our guidance we don't have any buybacks projected in our guidance. That's – we issued guidance just on the pure fundamentals of the business.

Secondly, post the converts, could we be in the market and in a meaningful way? We could. One item that we're going to have to be mindful of, and this just kind of goes to Tim's question, is the updated disclosures around the investigation.

That's something that we'll have to be mindful of as we go forward. It doesn't mean that we won't be in the market, but there may be some challenges for us to be in the market, and we're just going to have to monitor that situation closely as it unfolds.

As that situation unfolds - there then becomes an economic decision in when – and timing about a potential refi. So as you know and we've stated, we feel very comfortable at our current leverage levels. We're at about 2.9x on a

growth leverage level, anywhere in the 3x zip code is a place that we feel good about.

Post maturity of the converts, we'll be down to about 2.2x, so obviously, there will be room and upside to refi. But refinancing and carrying the cost of debt on our balance sheet when we may be in a position where we can't put that cash to work effectively, right, that goes into an economic decision.

So we'll have to just take all of that together and as the quarter and the months follow here, just make the right economic decision.

Beth Kite: Great. Good context there. Are you able to give a number for the operating cash flow for the year?

Alexander Amezquita: I don't have that at my fingertips here, so let me – maybe we can follow up on that off-line?

Beth Kite: Wonderful. OK. Perfect. And then, if I may, I'd just like to close with 2 questions around, I suppose, you call strategy. One in the energy, sports, and fitness segment.

Just thinking about the 24 line and its recent – I think it's a single product at this point, but a small start into India. In the second half of this year and into next year, where and when might you be continuing to expand and the magnitude of expansion of the Herbalife24 into other markets?

And then also, I think, that we're at now 5 markets with preferred members. Are there any on tap additional to those 5?

John Agwunobi: Yes. Thanks for the question. Let me start quickly on the H24 line of products. It's multiple SKUs with multiple purposes and use cases. And then I'll hand off for the PM question to John, my colleague.

So on Herbalife24, as you know, it's a sports performance line, it has multiple SKUs. In the U.S., it has a number of very successful SKUs, including Rebuild Strength, which is a high-protein product for use principally right after exercise. It has a hydration product, which actually is the product H24

Hydrate that we launched in India. Most recently, this quarter – this last quarter, we launched H24 BCAAs, branched-chain amino acids, that was launched at the Extravaganza, this – and we also launched an enhanced protein product under the same H24 brand.

So the answer to your question is we're going to continue to innovate and add new products to the H24 line overall, expanding it, so that it better satisfies the needs of individuals who exercise, individuals who want to gain muscle mass and individuals who are into sports.

However, we're also going to take that line, even as we add to it, and continue to then extend – take that line to other countries around the world as we've done most recently in India. We'll continue to take it to other countries as demanded.

John DeSimone: And then, I'll take on the segmentation question. And so I think from a segmentation standpoint, there is a lot of additional demand from various countries, various distributors in various countries to implement segmentation in their respective markets.

We won't announce which markets until we announce it to that particular market, but I think over each of the next few quarters, you're going to hear more and more names pop up. So we do expect the number of markets using segmentation to grow significantly over the next few years.

It's a pull model, and quite frankly, each market takes programming. So it's not a switch you can turn on and turn on a whole region. You have to do it market by market. And there is a pipeline for which we are – we'll be launching segmentation.

But in addition to the 5 that you already know about, we're not prepared to announce on this call what those are, for reasons I hope you understand, right? Those markets should hear from us first.

Operator: And our next question is from the line of Hale Holden from Barclays. Hale?

Hale Holden: I had 2 quick ones. Just a clarification on the restrictions on share buybacks related to the disclosures. Is that a blackout restriction, while you're in negotiations, you wouldn't want to buy shares back? Or I mean is there something else that I'm missing there?

Alexander Amezquita: Yes. Hale, just to be clear, I don't think we're saying that we have a restriction I think we're just trying to signal – we don't know where these discussions are going to go, there's a possibility that we could be impacted, and we're just trying to signal that we have just something that we need to be aware of. And when we're sitting here in 3 months from now, it just gives you an idea of what might transpire over the quarter.

Hale Holden: Understood. And then my second question is on the – I saw the rollout press release last week on the H24. And I was just wondering from a distribution standpoint, if you thought your current distributors were in a good spot to be able to expand to more of a performance athlete into that market? Or was it going to take a sort of different training mechanism to get people up to speed on it?

John Agwunobi: Yes. It's a good question. Our model is, as you know, that we launch largely in response to demand for products from our distributors. They are in touch with their customers every day, they understand what the needs in the marketplace are, they have a process, they have product committees where they discuss, debate, and prioritize what needs we should help them fill first.

And so these launches are typically in demand – in response to demand from our distributors. And so, the answer to your question is yes, we believe our distribution network, our distributors are ready. Hundreds of them, by the way, if not thousands, have increasingly, over time, built fitness and sports into their models. And so it's us keeping up with their growth and their demand.

Hale Holden: And I just – I assume it's a higher basket for the distributor and results on higher distributor earnings. So all in, it kind of has a flywheel effect if it expands?

John Agwunobi: I think that's a fair statement. Yes.

John DeSimone: And actually a bit more sustainable than some weight loss customers can be, right? One can, in some respect, our weight loss customers, some of them have a finite goal, where sports nutrition customers are a lifestyle. It doesn't change.

John Agwunobi: Yes, without a doubt.

Operator: And ladies and gentlemen, now I'd like to turn the call back over to Michael Johnson for closing remarks. Sir?

Michael Johnson: Thanks, everybody, for being on the call. I listen to this great team of executives, and think about a great team of distributors, and the basket of markets we have. And then, of course, we talk about China. And this is – I want to get to the conclusion in one of these quarters of saying, besides China, we're doing great. We're going to pick up with China.

We got a great situation there in terms of business models, we've got an incredible opportunity with our methods in the marketplace and nutrition is a global lead. It's not isolated to one market. You heard John, Dr. John, just talk about BCAA and the sustainability of that product.

And John DeSimone jumping in and saying, "Hey look, this type of customer is somebody who wants to build muscle, they want lean muscle mass in their body. We have a basket of markets, we have a basket of business methods, we have a basket of products that are going to satisfy consumers for a long time."

The passion of our distributors and the way they go-to-market was evidenced to all of us in the last month in 5 gigantic meetings, 2 in Russian-speaking markets, 2 in Hong Kong, one for our Chinese service representatives, and for our APAC distributors, and then 26,000 distributors, energetic and many of you participated in that talk, that energy in the Superdome in New Orleans.

This company is in a special place, this is a special time. We've got a bit of a problem in China. We'll get over it. We've seen these problems before, we've

conquered them, we beat them, we're going to do it again. We've built this company strong, and we're going to build it even stronger.

So thanks for being with us. We appreciate your energy, your support. Let's go get them, Herbalife.

Operator: Ladies and gentlemen, this does conclude today's conference. We thank you greatly for your participation. You may now disconnect.

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