

# **Herbalife Investor Day Presentation**

*January 10, 2013*

# Safe Harbor Statement and Disclaimer

This presentation and the related narrative contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect” or “anticipate” and any other similar words.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the Securities and Exchange Commission. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:

- any collateral impact resulting from the ongoing worldwide financial “crisis,” including the availability of liquidity to us, our customers and our suppliers or the willingness of our customers to purchase products in a recessionary economic environment;
- our relationship with, and our ability to influence the actions of, our distributors;
- improper action by our employees or distributors in violation of applicable law;
- adverse publicity associated with our products or network marketing organization;
- changing consumer preferences and demands;
- our reliance upon, or the loss or departure of any member of, our senior management team which could negatively impact our distributor relations and operating results;
- the competitive nature of our business;
- regulatory matters governing our products, including potential governmental or regulatory actions concerning the safety or efficacy of our products and network marketing program, including the direct selling market in which we operate;
- legal challenges to our network marketing program;
- risks associated with operating internationally and the effect of economic factors, including foreign exchange, inflation, disruptions or conflicts with our third party importers, pricing and currency devaluation risks, especially in countries such as Venezuela;
- uncertainties relating to the application of transfer pricing, duties, value added taxes, and other tax regulations, and changes thereto;
- uncertainties relating to interpretation and enforcement of legislation in China governing direct selling;
- our inability to obtain the necessary licenses to expand our direct selling business in China;
- adverse changes in the Chinese economy, Chinese legal system or Chinese governmental policies;
- our dependence on increased penetration of existing markets;
- contractual limitations on our ability to expand our business;
- our reliance on our information technology infrastructure and outside manufacturers;
- the sufficiency of trademarks and other intellectual property rights;
- product concentration;
- changes in tax laws, treaties or regulations, or their interpretation;
- taxation relating to our distributors;
- product liability claims; and
- whether we will purchase any of our shares in the open markets or otherwise.

Forward-looking statements speak only as of the date hereof. We do not undertake any obligation to update or release any revisions to any forward-looking statements or to report any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

All statements by the Company included in the following presentation concerning assertions by Pershing Square reflect the opinion of the Company or the speakers.



# Michael O. Johnson

*Chairman and Chief Executive Officer*

# Herbalife Today

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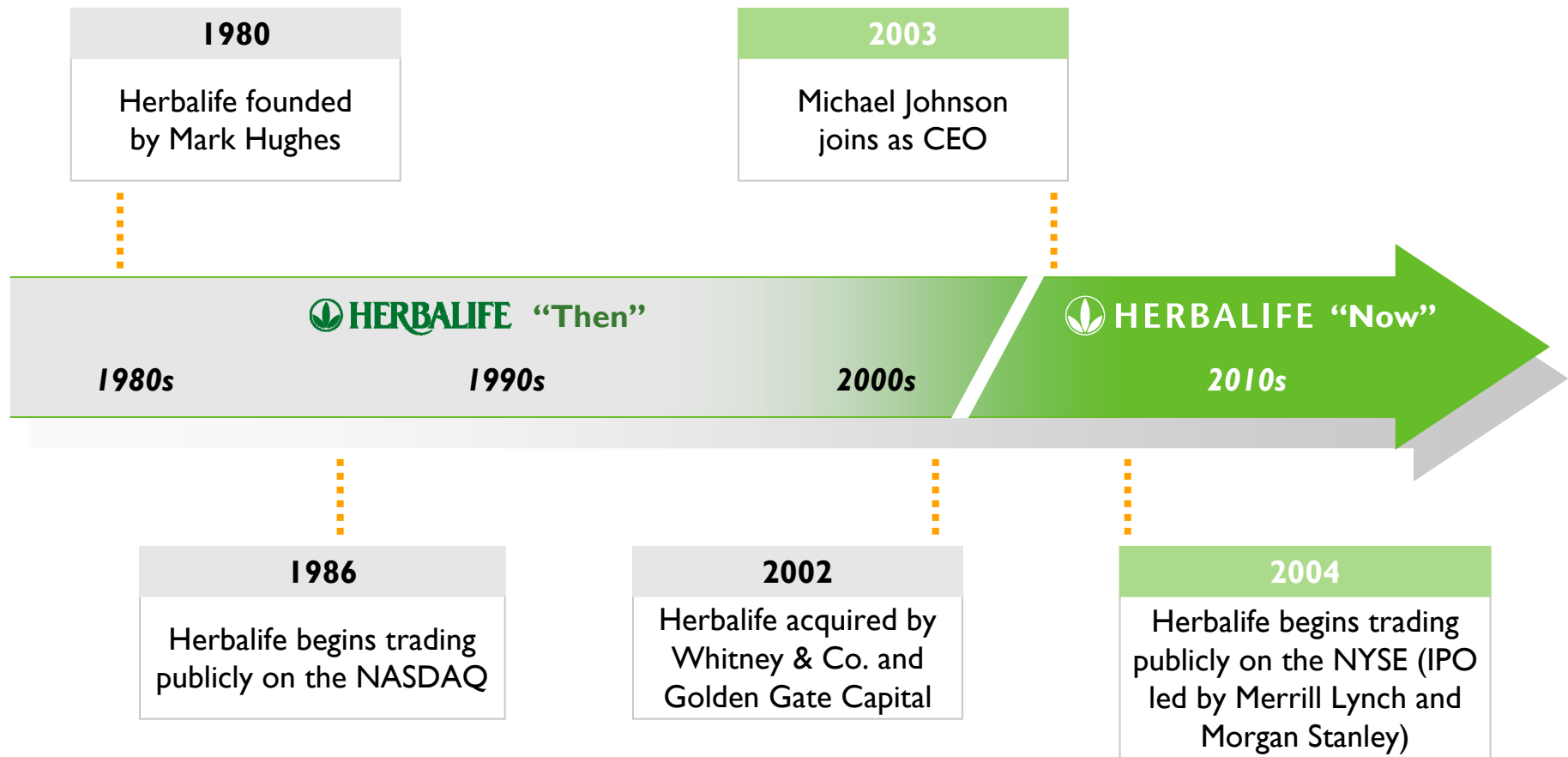
***Nutrition for a better life.***

- Global Nutrition Company
- Founded in 1980
- LTM Net Sales of \$3.9 billion as of 09/30/12
- LTM EBITDA of \$709 million as of 09/30/12
- Strong Balance Sheet
- Returned approximately \$1.9 billion of capital to shareholders since 2007
- Over 6,000 employees worldwide
- Independent MLM Distributor network with operations in 88 countries
- High quality products to pursue an active, healthy lifestyle
  - Weight management, including the #1 meal replacement shake<sup>1</sup>
  - Vitamins & nutritional supplements
  - Sports & fitness nutrition
  - Skin and haircare products

1. Euromonitor International: data for global meal replacement category (as of 12/26/12)



# Herbalife Timeline



# Debunking Pershing Square's Pyramid Scheme Misrepresentations

## **Misrepresentation:**

**1** *Not a Product Company*

**2** *Minimal Product Consumption*

**3** *Business Model is Not Compliant*

**4** *Pop and Drop is Governing Growth*

**5** *Deceptive Financials*

## **Fact:**

**High Quality Products Meeting Consumer Needs**

**Millions of Consumers In and Out of Network**

**Legitimate and Compliant Company**

**Volume and Revenue Driven by Mature Markets**

**Financial Integrity and Transparency**



# Today's Speakers

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## TODAY'S SPEAKERS

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### **Michael O. Johnson**

*Chairman and Chief Executive Officer*

### **Des Walsh**

*President*

### **John DeSimone**

*Chief Financial Officer*

### **Richard Goudis**

*Chief Operating Officer*

### **Vasilios Frankos, MS, PhD**

*SVP Global Product Science, Safety and Compliance, Former Director, FDA Division of Dietary Supplements Programs*

## ADDITIONAL SPEAKERS

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### **Kim Rory**

*Vice President and Assistant General Manager, Lieberman Research Worldwide*

### **Anne Coughlan, PhD**

*John L. & Helen Kellogg Professor, Kellogg School of Management, Northwestern University*





HERBALIFE

# ① High Quality Products Meeting Consumer Needs

*Debunking Pershing Square's*

*Pyramid Scheme Misrepresentations*

# Misrepresentation

## Herbalife is Not a Product Company

### HLF View

- Herbalife products are **truly extraordinary**
- Herbalife products are offered at a **fair price**
- “Everybody knows Herbalife”
- “We’re doing research around the clock in this company”
- Renowned scientists are employed to differentiate HLF product offering

■ **It's all about the products**

### Reality

- Herbalife products are **commodities**
- Herbalife products are offered at a **massively inflated price**
- Herbalife’s advertising expenditures are **de minimis**
- Herbalife’s R&D expenditures are **not material**
- HLF pays PhD’s to lend credibility to HLF’s business opportunity

■ **It's all about the business opportunity**

## **Fact:**

# **Herbalife Invests Significantly in Products and Infrastructure**

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### **Science**

- \$44 million spent in 2012 on combined scientific areas of R&D, quality assurance, product safety and compliance, among others
- Over 200 employees with science degrees, of whom 24 are PhDs, in 23 countries
- Partnerships with world-class ingredient suppliers, such as DuPont, BASF, DSM and ADM, leveraging their science, research and production capacity

### **Manufacturing**

- Investments in product manufacturing
  - Since 2009, approximately \$175 million invested or committed
- Currently three self-manufacturing facilities operating, satisfying 30% of demand
- Goal to reach 65% self-manufactured product by 2015, upon completion of the Winston-Salem, NC facility
- Partner with leading manufacturers such as Nutra, NBTY, Perrigo and Fine Foods

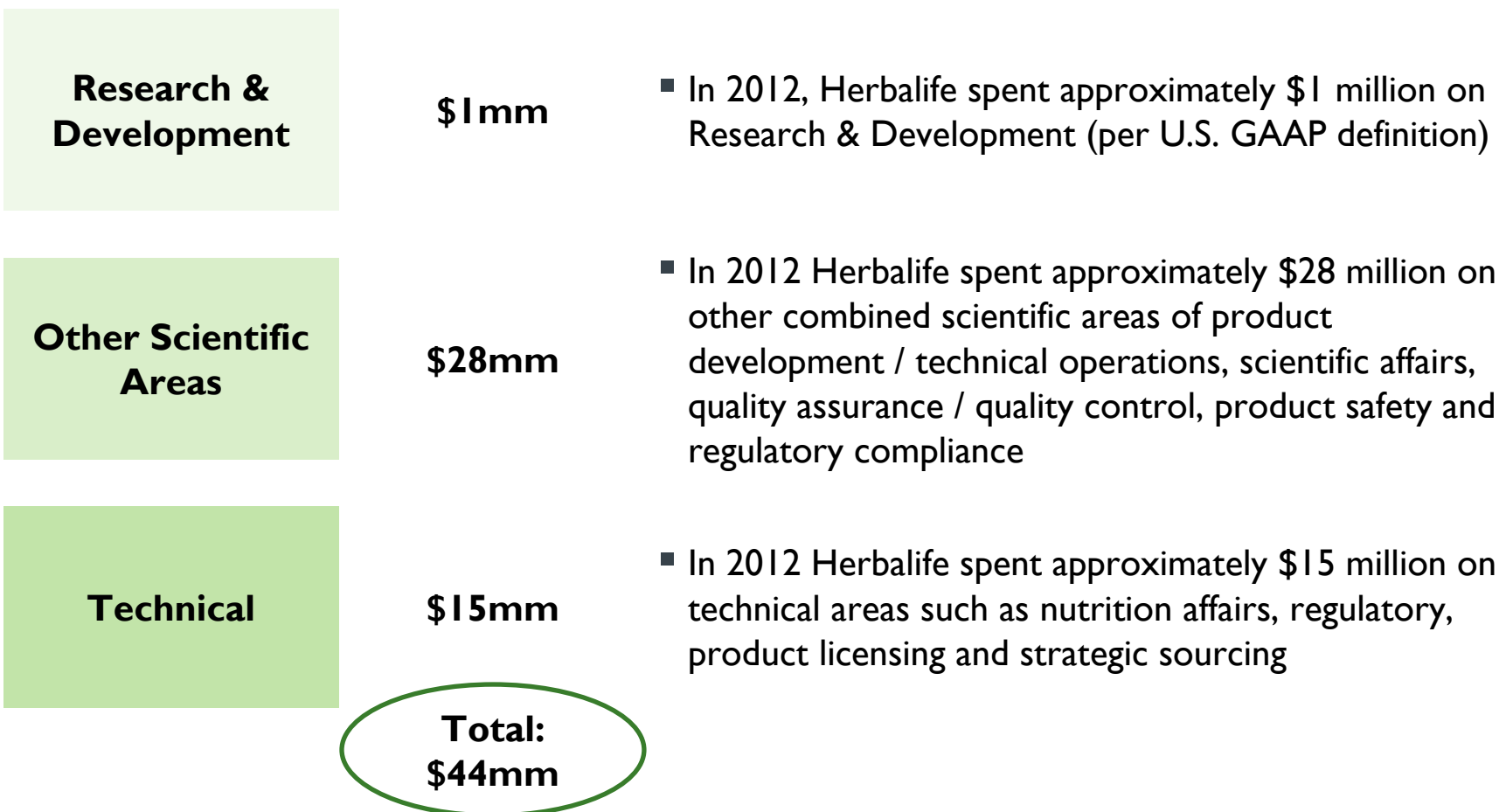
### **Distribution / Access Points**

- Significant global distribution presence with over 300 Company operated access points in 88 countries
- Additionally, over 300 “Retail” partner locations in Mexico and India
- Ongoing innovation in product distribution formats to increase accessibility; currently testing 24/7 automated sales kiosks



## **Fact:** Herbalife Invests Significantly in Science

*Herbalife employs over 200 full-time employees with science degrees, 24 with PhDs, performing the following functions in 23 countries*



**\$44 million investment in science and technical activities in 2012**

# Setting the Record Straight: R&D Expense

*DSHEA<sup>1</sup> provided the FDA regulatory guidelines and reinforced the fact that dietary supplements are categorized as food, not drugs*



**Specialty Retailer  
of Dietary Supplements**

Market Cap: \$3.3bn  
LTM Revenue: \$2.4bn

## DESCRIPTION OF R&D IN 10-K <sup>2</sup>

“The Company recognized **\$0.6 million**, \$0.5 million and \$0.4 million for the years ended December 31, 2011, 2010 and 2009, respectively”



**Multi-Brand Manufacturer  
Of Dietary Supplements**

Market Cap: n/a  
LTM Revenue: \$3.0bn

## DESCRIPTION OF R&D IN 10-K <sup>3</sup>

“We **did not expend material amounts** for research and development of new products during the last three fiscal years”



**Global Nutrition  
& Direct Selling**

Market Cap: \$4.3bn  
LTM Revenue: \$3.9bn

## DESCRIPTION OF R&D IN 10-K <sup>4</sup>

“The Company’s research and development is performed by in-house staff and outside consultants. For all periods presented, research and development costs were expensed as incurred and **were not material**”

**R&D Expense is consistent with U.S. peer group**

Source: Capital IQ

Note: Market data as of 01/09/13

1. Dietary Supplement Health and Education Act
2. Pg 82 of GNC’s 10-K for fiscal year ended 12/31/11

3. Pg 7 of NBTY’s 10-K for fiscal year ended 09/30/12
4. Pg 106 of Herbalife’s 10-K for fiscal year ended 12/31/11

# Leveraging the Science & Research of World-Class Suppliers

*Herbalife partners with world-class suppliers to produce its Formula 1 meal replacement shake*



**Archer Daniels Midland**



# Quality Engineered into the Product

## Herbalife's "Seed to Feed" in action



Strategic Sourcing

Testing

Manufacturing

Transportation

Distribution

**Quality testing occurs at five distinct steps from Seed to Feed**

# Quality Engineered into the Product *(cont'd)*

*Excellent quality control systems ensure cGMP ' compliance*



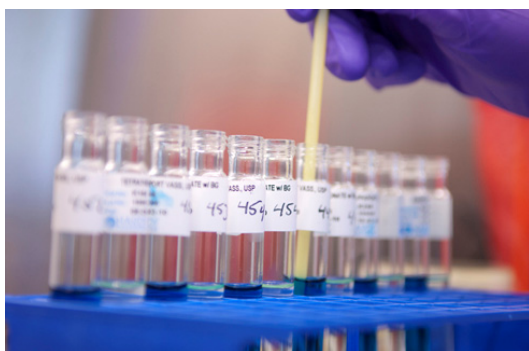
**Method Development**



**Stability Testing**



**Label Claim Verification**



**Impurity and Metal Testing**



**Temperature Monitoring**



**Sample Retention**

# Investments in Vertical Integration

*Once H.I.M. Winston-Salem manufacturing plant is completed, Herbalife will have invested over \$200 million in vertical manufacturing*

**2000** – H.I.M. Suzhou, China Building #1



**2012** – H.I.M. Changsha, China

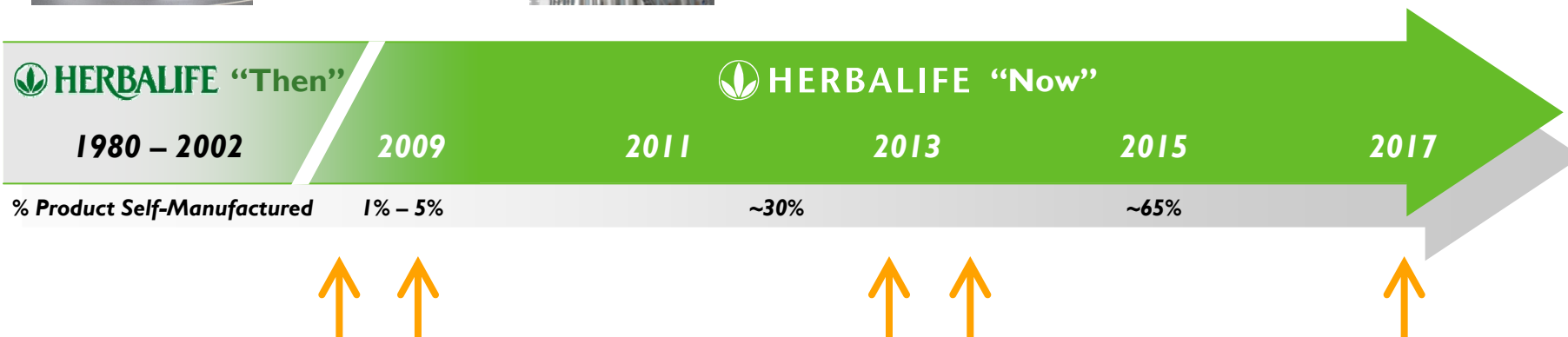


**2012** –

- i. H.I.M. Lake Forest 2nd Liquid Line
- ii. H.I.M. Suzhou Expansion



**2014** – H.I.M. Winston-Salem, NC



**2009** – H.I.M. Suzhou Building #2

**2009** – H.I.M. Lake Forest, CA



**2013** – H.I.M. India

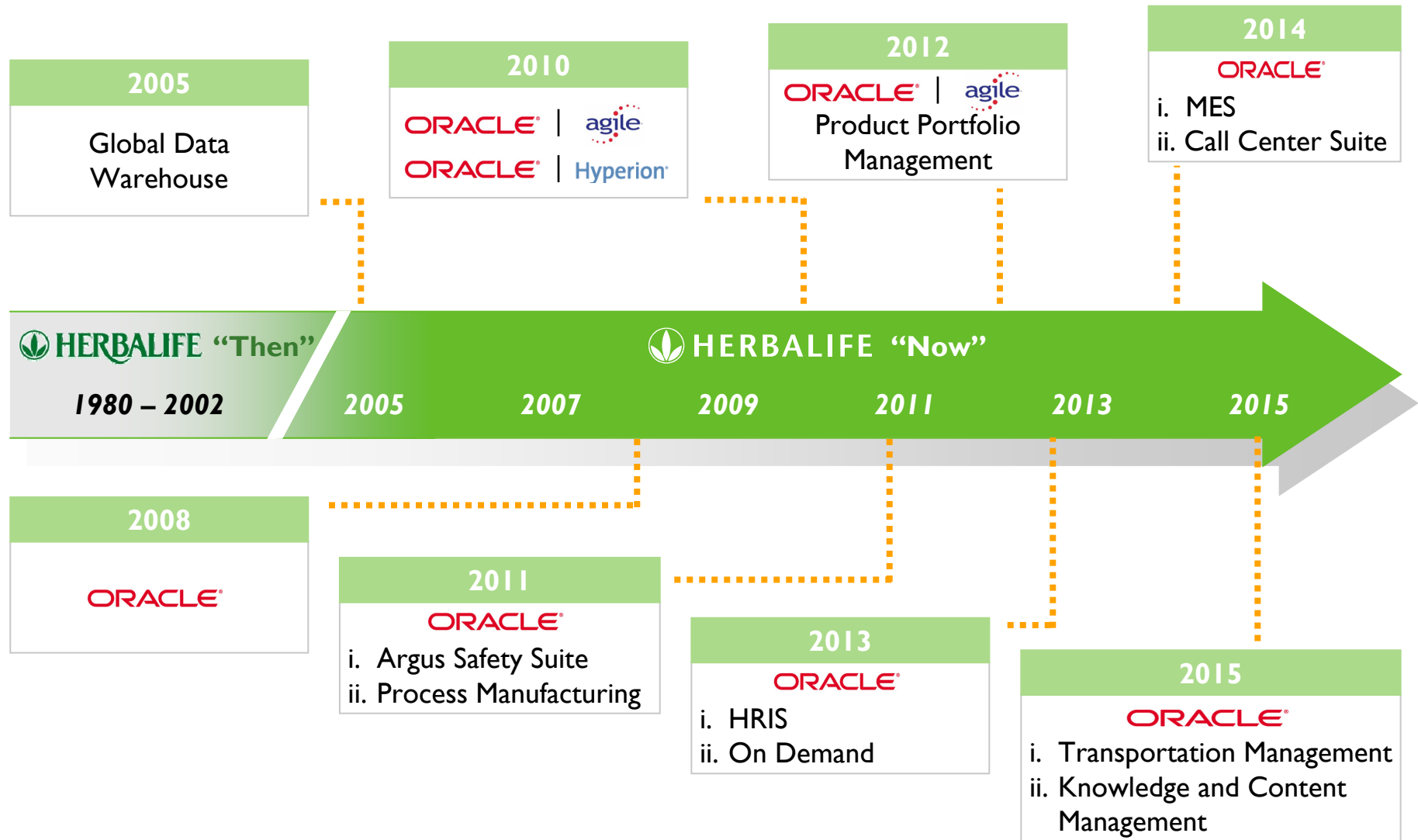


**2013** – H.I.M. Lake Forest 3rd Line

**2017** – H.I.M. Additional Locations Completed

**Significant investment in vertical manufacturing**

# Significant Investment in Technology



**Approximately \$175 million invested in a global Oracle infrastructure**

# ***Misrepresentation:*** **Herbalife Has a Limited Logistics Footprint**

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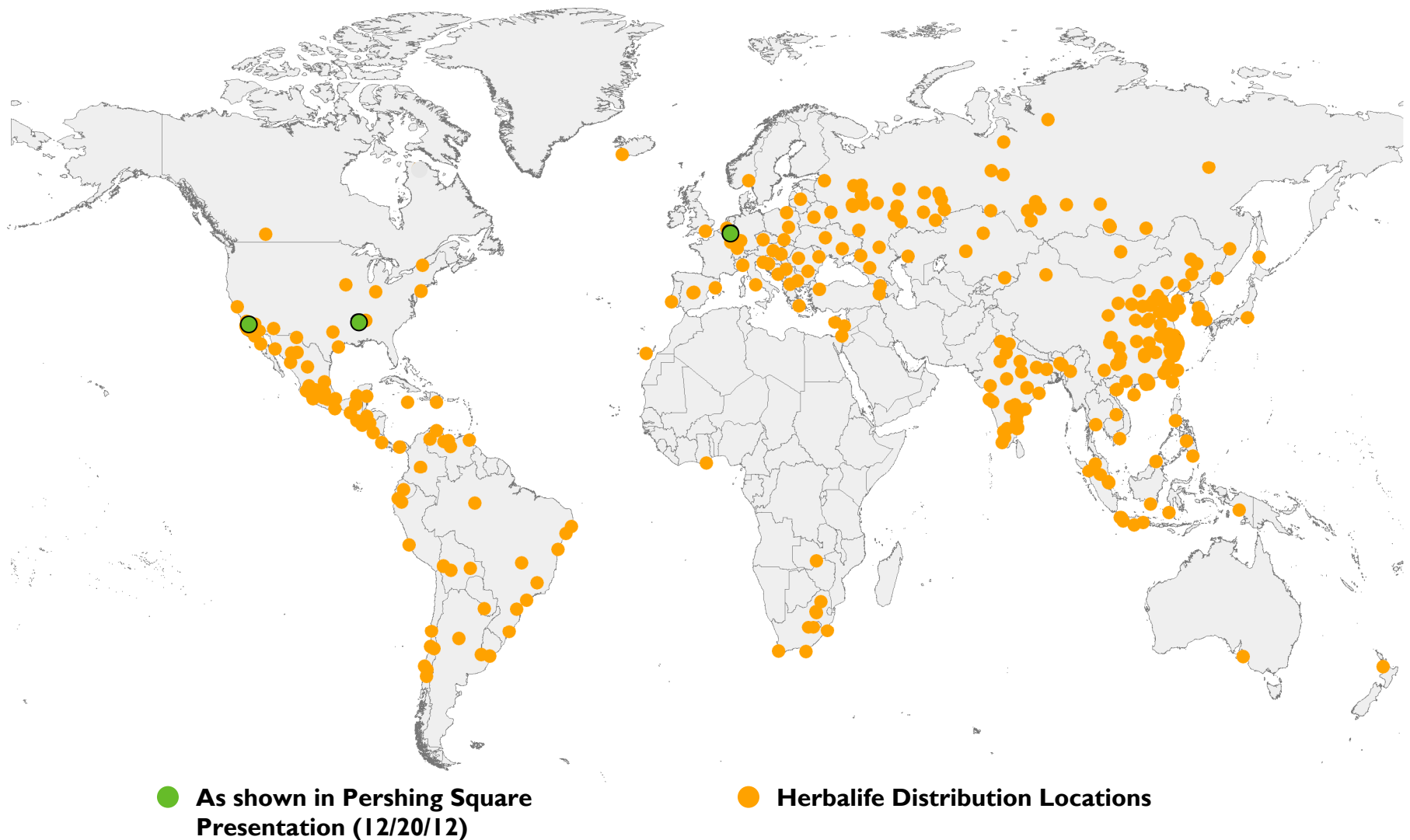


● As shown in Pershing Square  
Presentation (12/20/12)



**Fact:**

## Herbalife Has a Significant Global Distribution Presence



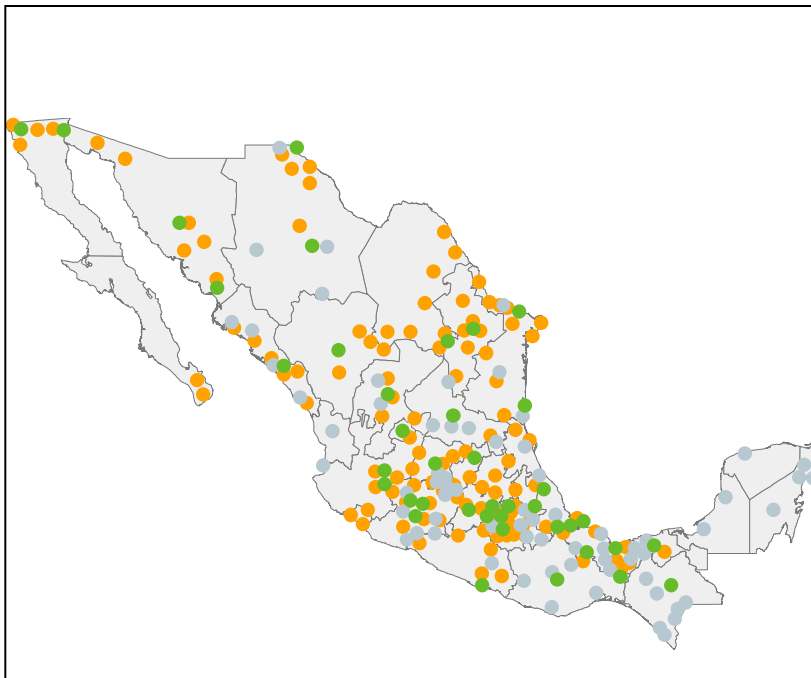
**300 Company operated access points in 88 countries**

**Fact:**

# Herbalife Has a Significant Global Distribution Presence (cont'd)

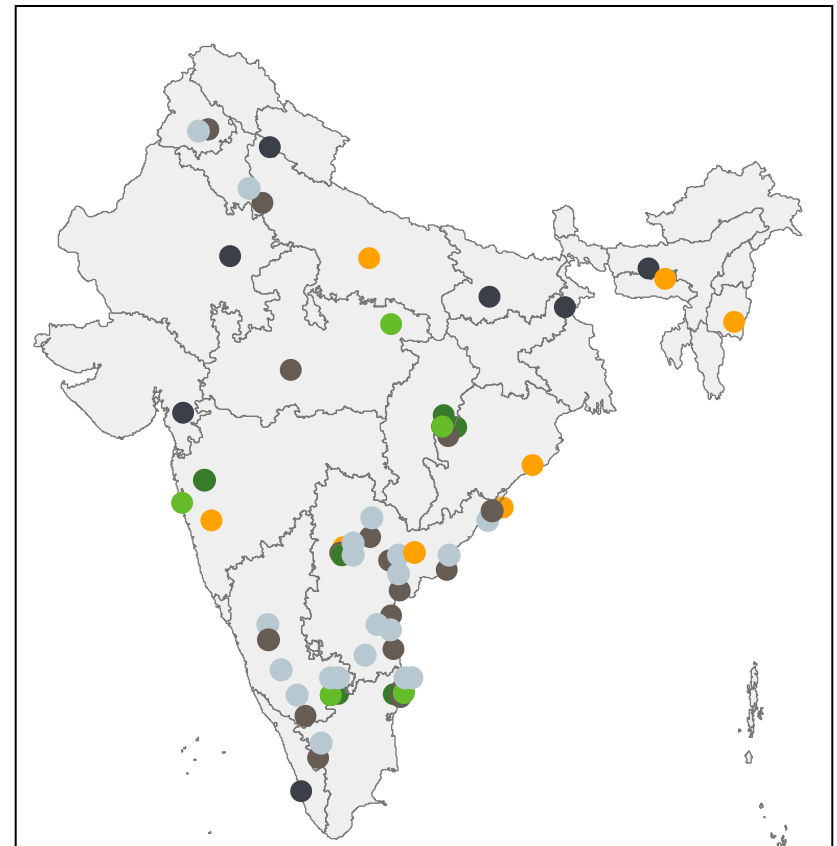
*Third-party partnerships significantly increase ease of access to Herbalife products*

## MEXICO



- Sales Centers
- Waldo's Pick-Up Locations
- Modatelas Pick-Up Locations

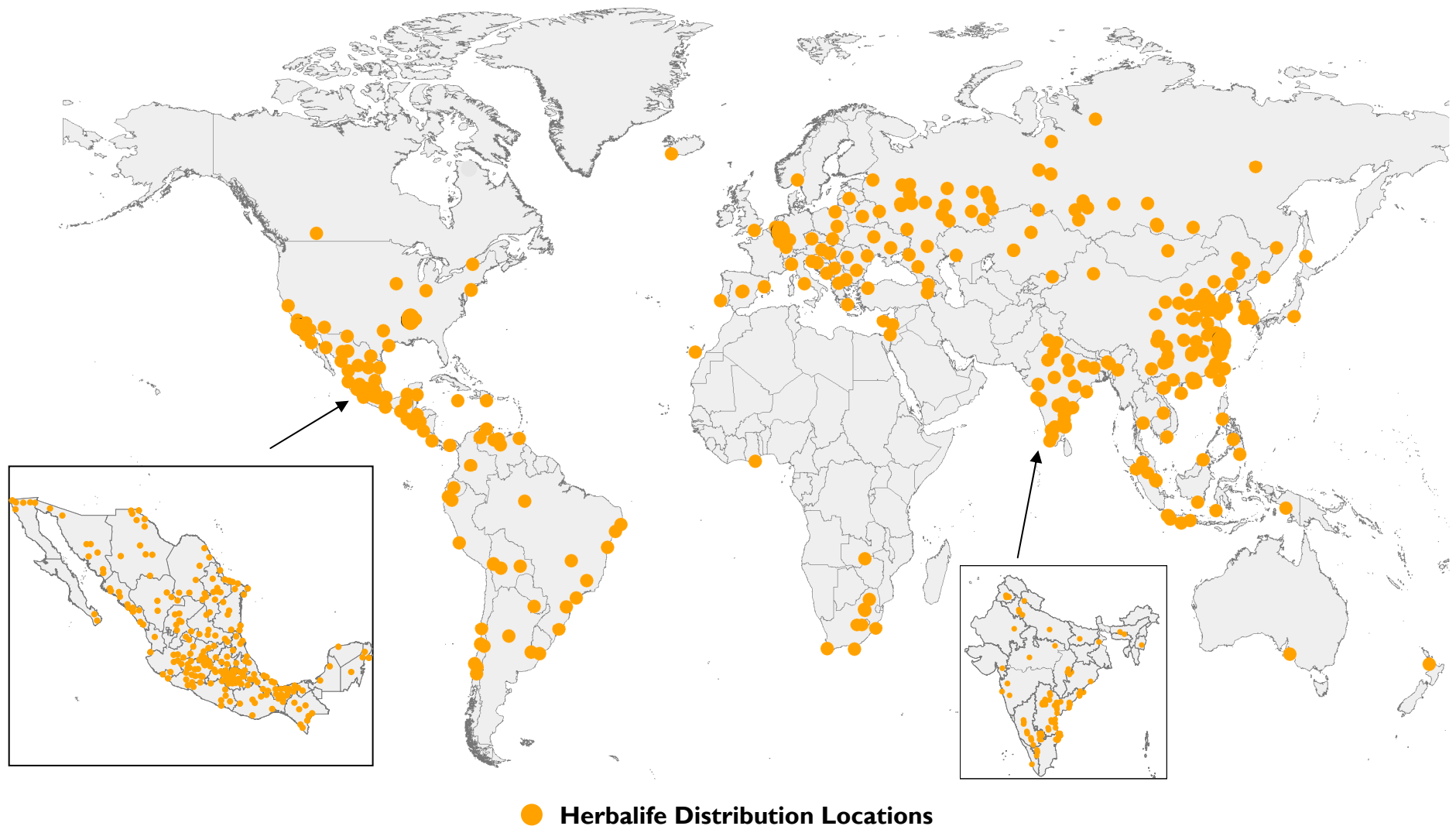
## INDIA



- Sales Centers
- QRC
- Distribution Center/ Shipping
- Warehouse
- Pick up Points
- MORE & GMS Pick-Up Locations

**Fact:**

## Herbalife Has a Significant Global Distribution Presence *(cont'd)*

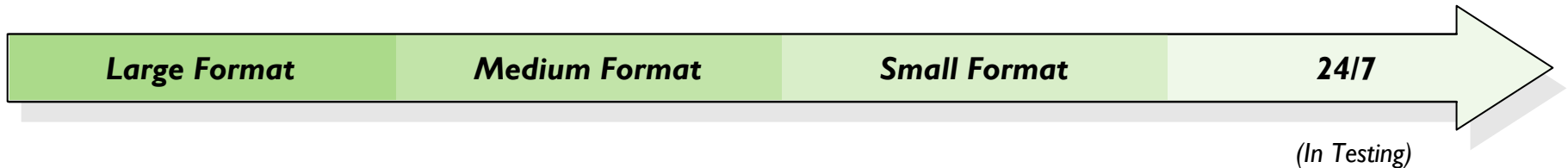


***Including partnerships, Herbalife product is available at over 600 locations***

**Fact:**

# Herbalife Has a Significant Global Distribution Presence *(cont'd)*

*Herbalife has various distribution formats*



**Los Angeles, USA**



**Seoul, South Korea**



**Yaroslavl, Russia**



**Automated Sales Kiosk**



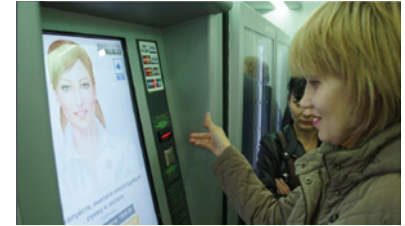
**Venray, Netherlands**



**São Paulo, Brazil**



**Belem, Brazil**



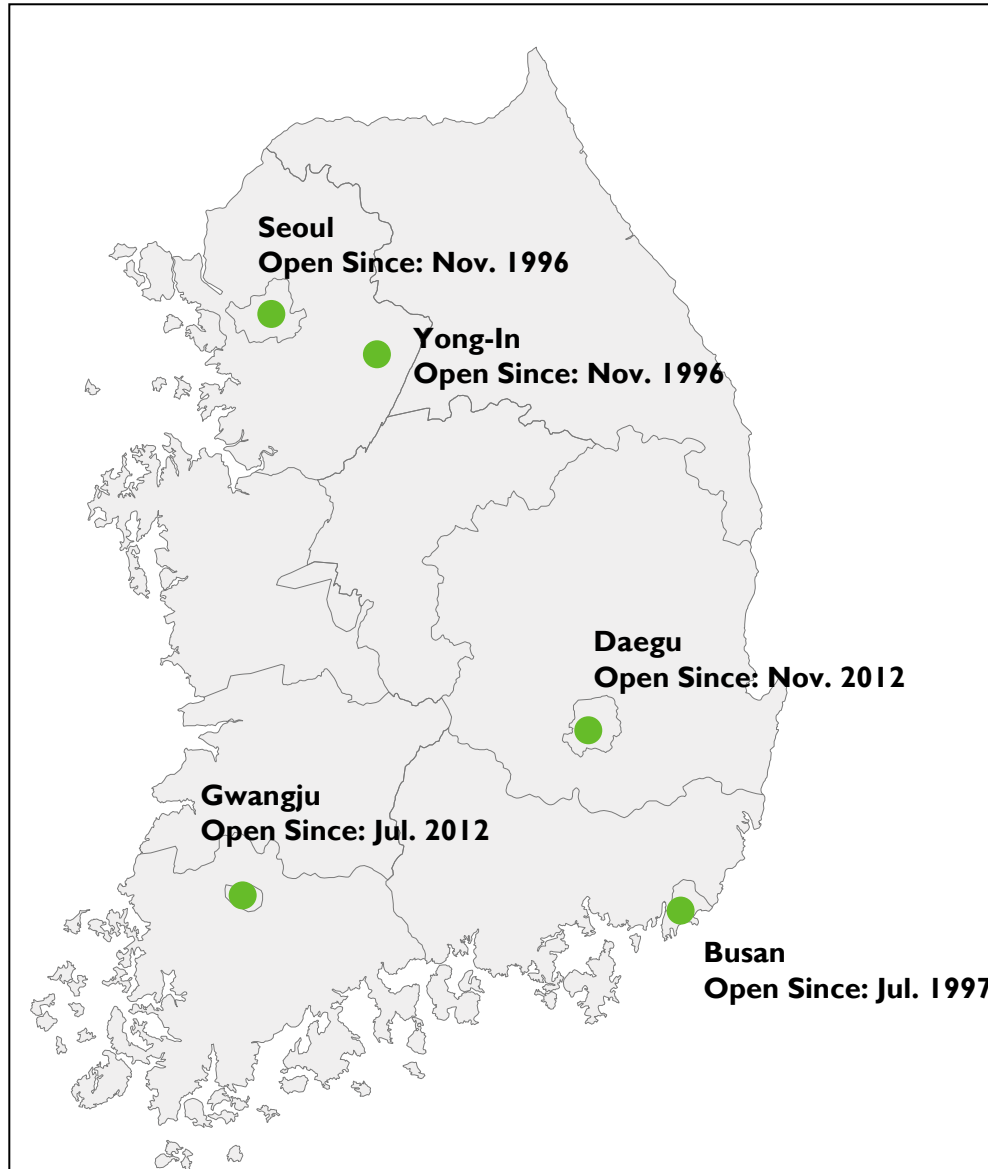
**Moscow, Russia**

***Herbalife Sales Centers customized to address local market behavior***

**Fact:**

# Herbalife Has a Significant Global Distribution Presence *(cont'd)*

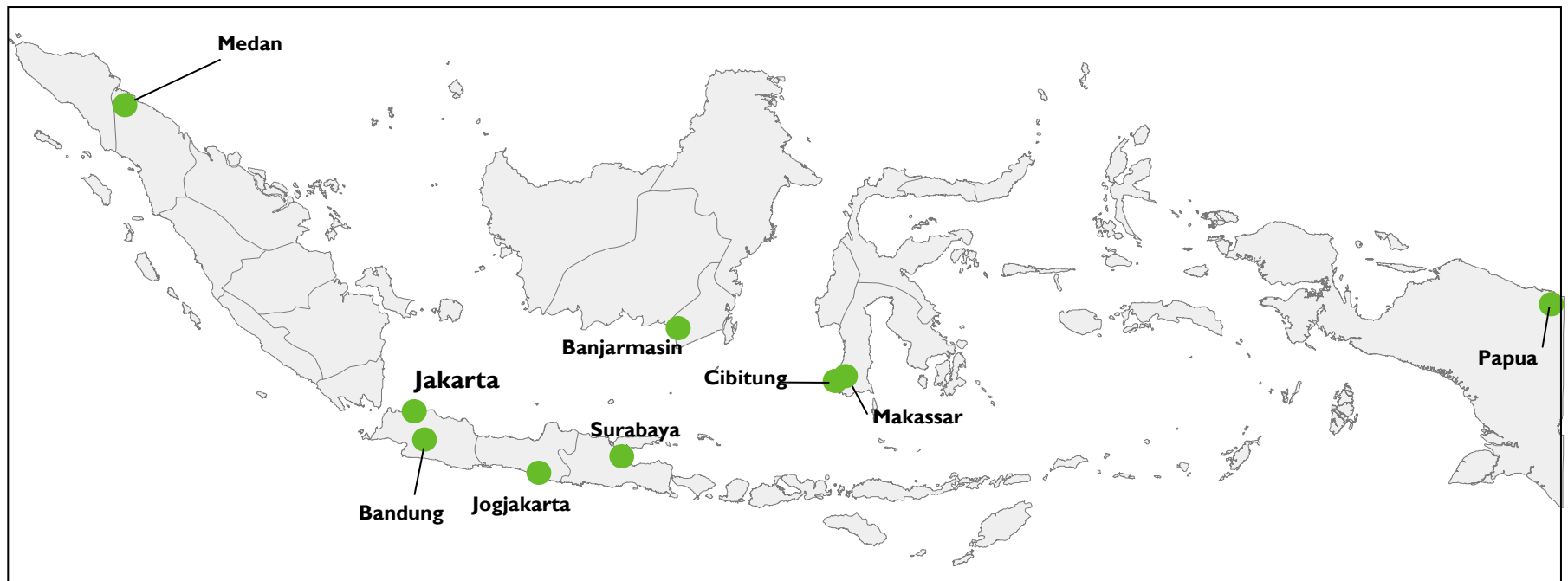
*Korea – Five access points in 3<sup>rd</sup> largest market*



**Fact:**

## Herbalife Has a Significant Global Distribution Presence *(cont'd)*

*Indonesia – 9 access points in a Top 10 Market*



# Misrepresentation

## No, Formula 1 is Materially More Expensive than Comparable Nutrition Shake Powders



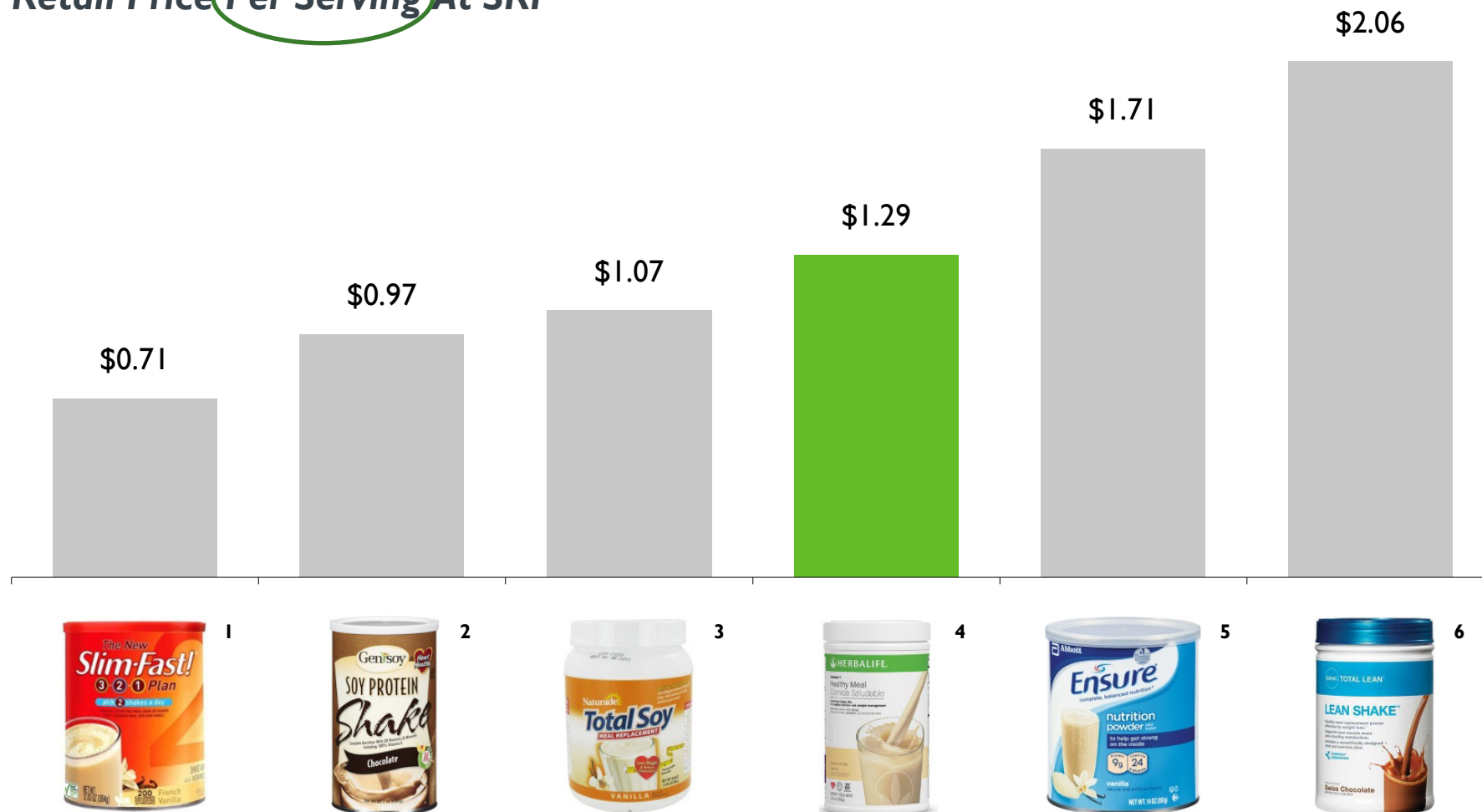
(1) Retail Price per 200 Calorie Serving includes Herbalife's 7% surcharge ("packaging and handling charge"). This charge is fixed despite quantity purchased or if distributors manually pick-up the product.

To create an apples to apples comparison, prices are evaluated on a per 200 calorie serving basis and assume the product is mixed with water.

HLF Source: Herbalife Product Price List - Los Angeles (3-6-12). GNC Source: GNC website (11-19-12). Slim-Fast/Ensure/Genisoy/Naturade Source: Walmart.com (11-19-12).

# Fact: Formula 1 is Priced Competitively

Retail Price Per Serving At SRP



**Price per serving is more pertinent to consumers' decision to purchase**

- |    |   |    |   |    |   |
|----|---|----|---|----|---|
| 1. | 14 suggested servings per 12.8 oz container | 3. | 15 suggested servings per 19.1 oz container | 5. | 7 suggested servings per 14.0 oz container  |
| 2. | 18 suggested servings per 22.2 oz container | 4. | 30 suggested servings per 26.5 oz container | 6. | 16 suggested servings per 27.0 oz container |

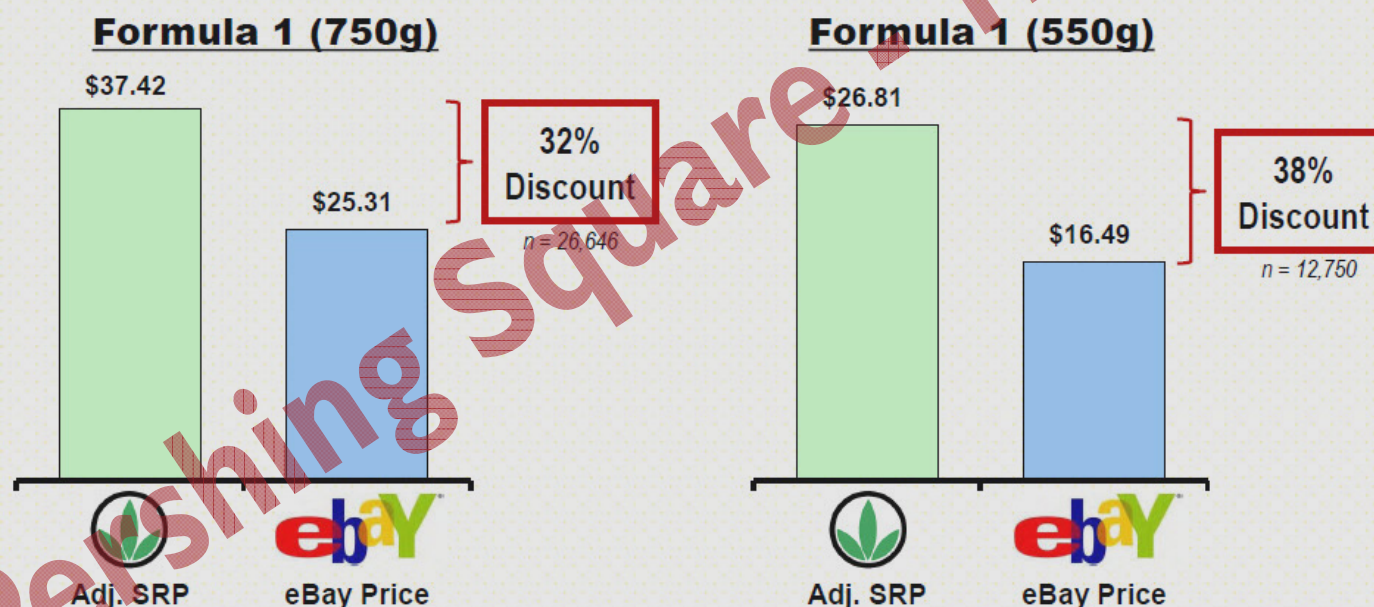


# Misrepresentation:

## eBay is a Proxy for Herbalife's Actual Retail Price

### Formula 1 Sells for a 34% Discount to Adjusted SRP on eBay

We hired a third-party research company to analyze every available Formula 1 transaction on eBay from 2007 through 2012. In total, we obtained price data for 39,396 canisters of 750g and 550g Formula 1

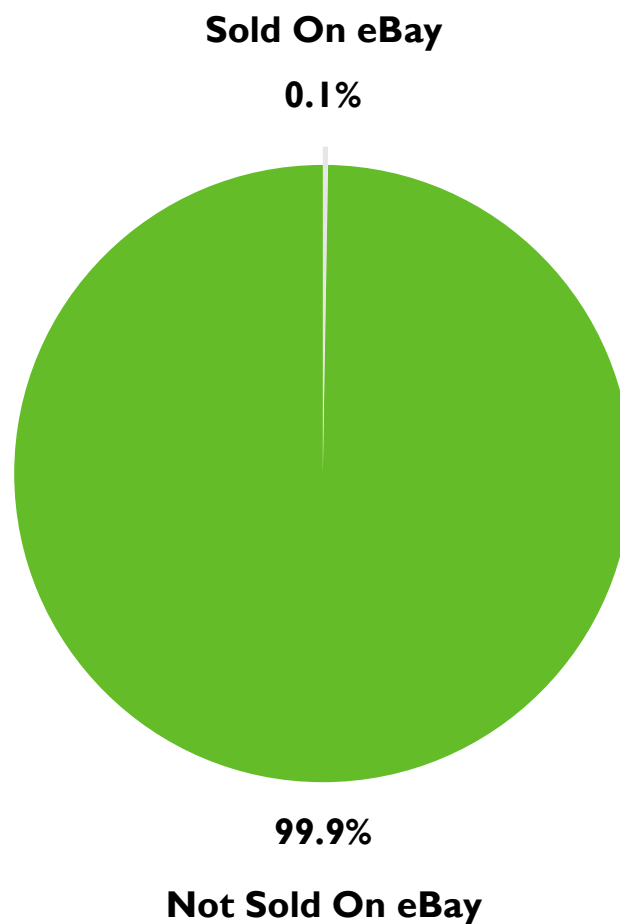


Note: Herbalife Adj. SRP represents the weighted average SRP for Formula 1 from 2007 through 2012 (e.g., as of 3-6-12, a 750g canister of Formula 1 had an Adj. SRP of \$38.68), which includes Herbalife's Surcharge but excludes shipping and taxes. eBay price data excludes shipping and taxes. We obtained data for 68,286 total Formula 1 transactions but only used the 39,396 transactions that included container size detail and were not bundled with other products. The 34% discount represents the weighted average of the discounts for the 750g and 550g canisters.

Source: ITG.

## **Fact:** A Lot Was Said About eBay, It Is Irrelevant

### **% OF 2007-2012 U.S. FORMULA 1 UNIT SALES**



Source: Pershing Square Presentation (12/20/12), Company Management

Note: Represents total Formula 1 sales on eBay per Pershing Square Presentation (12/20/12) divided by total U.S. Formula 1 unit sales per Company Management

# Vasilios Frankos, MS, PhD

*SVP Global Product Science, Safety and Compliance,  
Former Director, FDA Division of Dietary Supplements Programs*

## Biography – Vasilios Frankos, MS, PhD

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### Professional Background

- Joined Herbalife as Senior Vice President of Global Product Science, Safety and Compliance in April 2010
- Prior to joining Herbalife, spent more than 14 years with the Food and Drug Administration (“FDA”)
- Most recently served as Director of Division of Dietary Supplements Programs (“DDSP”), Center for Food Safety and Applied Nutrition (“CFSAN”), at the FDA
- Previously served the FDA as Special Assistant for Dietary Supplement Science Review, Staff Science Advisor in the Office of the Commissioner and as a Senior Toxicologist at CFSAN
- Before joining the FDA, spent 18 years with ENVIRON as a principal providing consultation of FDA and EPA product registration and toxicology/pharmacological evaluation
- Ph.D. in Pharmacology and Toxicology from University of Maryland Pharmacy School
- M.S. in Molecular Biology and a B.A. in Biology from University of Maryland



# Herbalife is Building the Industry Standard

## Key Responsibilities

- Responsible for all global science and safety
- Implemented Global Adverse Events Reporting system via Oracle
- Ensure accurate product dossiers to support product registration and product claims
- Liaise with government on regulatory matters
- Ensure compliance with cGMPs<sup>1</sup>

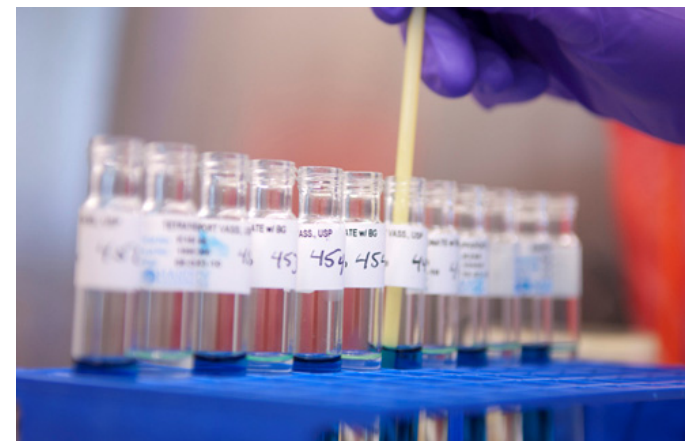
## Herbalife Commitment

- Herbalife assures product safety, quality, and efficacy by:
  - Investing science resources into assuring products are safe, high quality, efficacious and great tasting
  - Better control of the supply and manufacturing chain
  - Implementing a “Seed to Feed” program for our major product ingredients
- Herbalife’s commitment of scientific resources is applied in three main phases: pre-market, during production and post-market

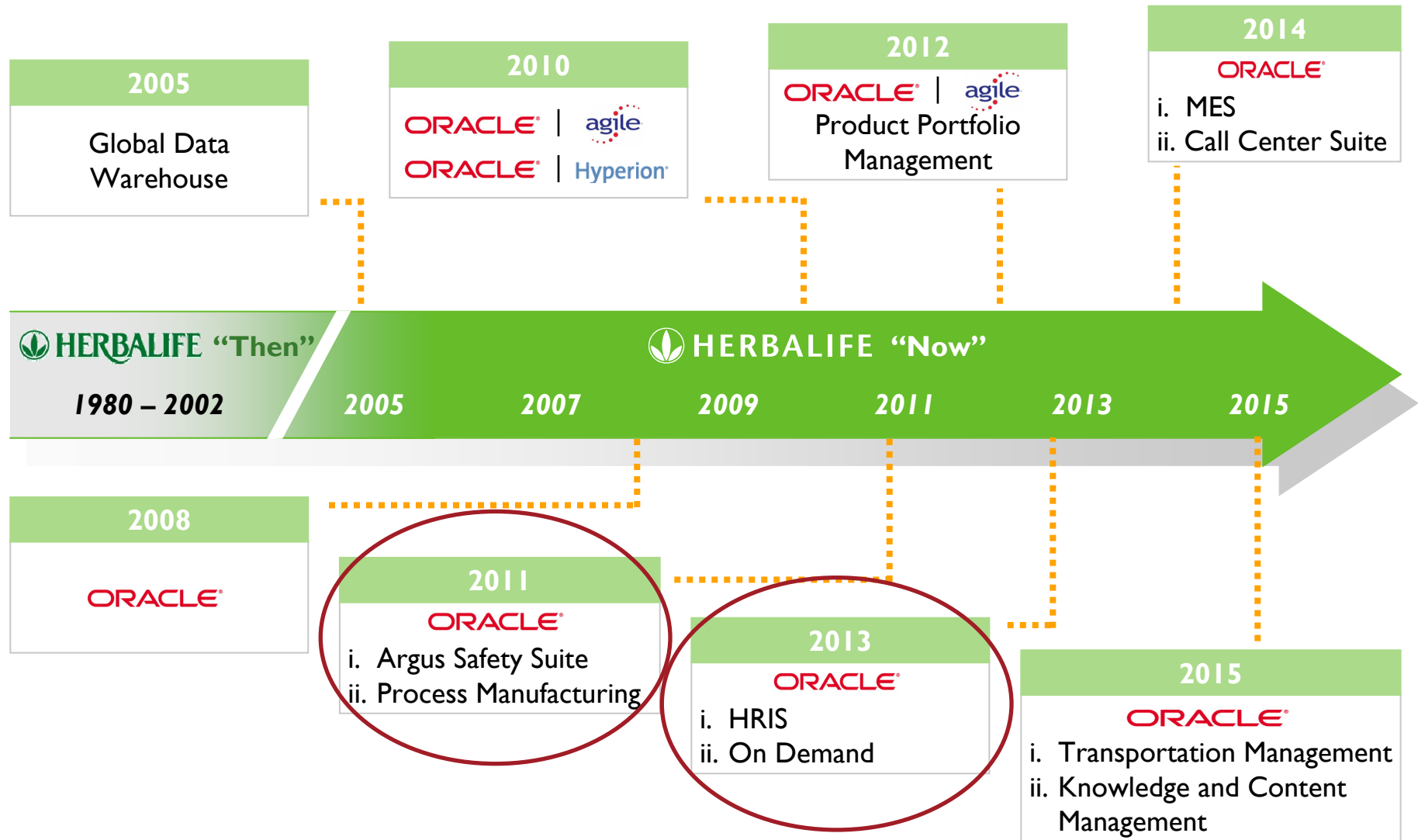


# Herbalife's Investment in Clinical Research

- Clinical research provides objective, third party data that can:
  - Support structure function label claims
  - Meet the FTC/FDA claims substantiation requirements
  - Assure the safety of a new product or ingredient
  - Meet global requirements for product registration
- Completed studies include: UCLA Meal Replacement, UCLA NiteWorks, Ulm Protein Study, Korean Protein Study, Russian Protein Study
- Currently 12 ongoing studies



# Significant Investment in Technology



**Approximately \$175 million invested in a global Oracle infrastructure**

# Herbalife is a Leading Global Nutrition Product Company

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- 1 We have best in class science
- 2 Our R&D spending is in-line with peers
- 3 Significant ongoing investments in quality, manufacturing, technology and product distribution
- 4 Our products are competitively priced
- 5 eBay is not a proxy for true market price





HERBALIFE

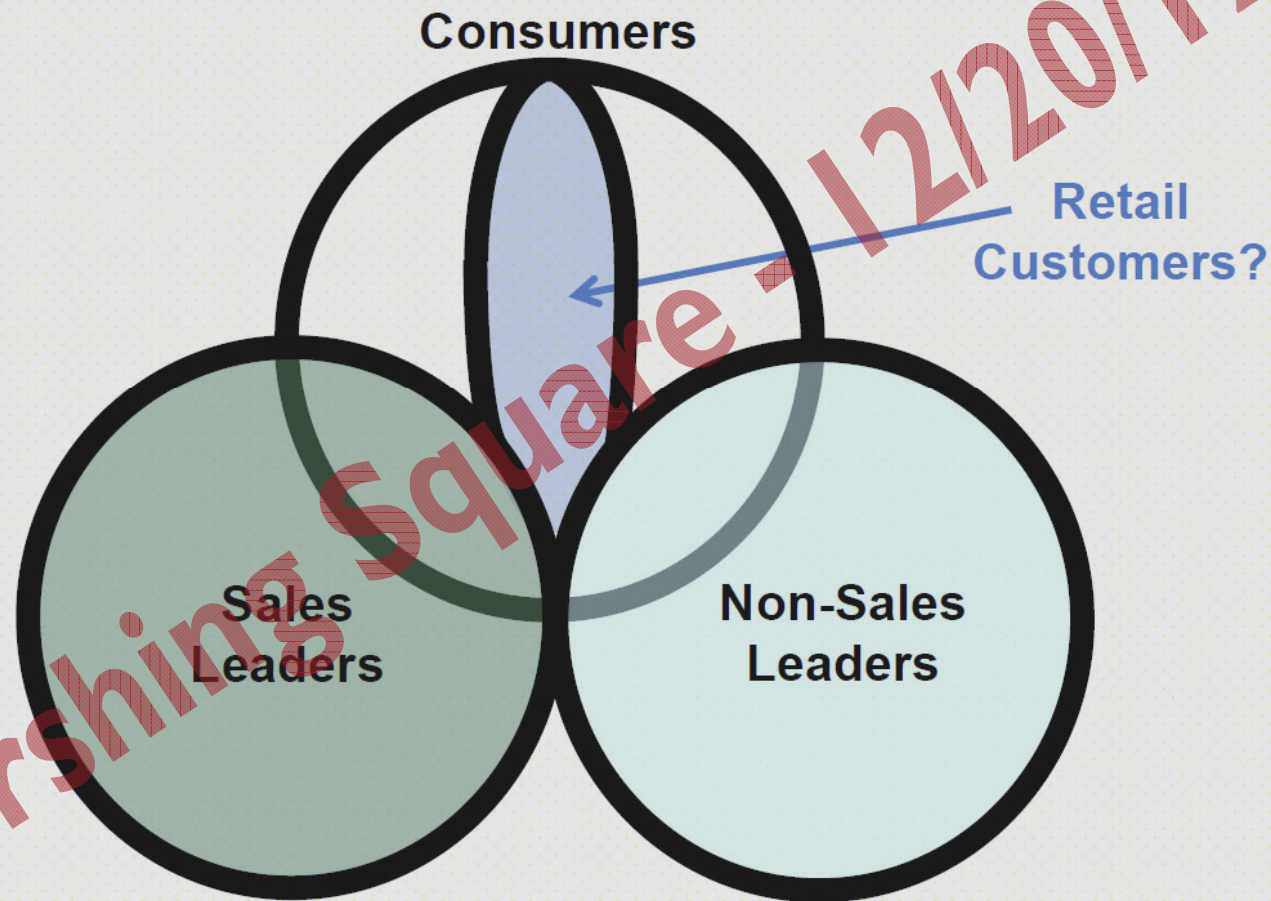
## **② Millions of Consumers In and Out of Network**

*Debunking Pershing Square's*

*Pyramid Scheme Misrepresentations*

## ***Misrepresentation:*** Minimal Outside Customers

**If Herbalife Doesn't Track Sales Outside the Network, How Many Retail Customers Are There?**

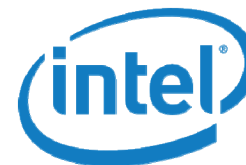


# Lieberman Research Worldwide

## OVERVIEW

- Lieberman Research Worldwide (“Lieberman”) is one of the largest privately-held marketing research consultancies with over 300 employees in seven offices globally
- Works with the top brands in the world such as Coca-Cola, Disney and McDonald’s
- Lieberman was commissioned in July of 2012 to begin validating a number of key business questions
- Kim Rory, Vice President and Assistant General Manager, has been with Lieberman for more than 15 years
- MA in Psychology from Loyola Marymount University

## SELECTED CLIENTS



# Background and Methodology

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## CONSUMER STUDY – CONDUCTED IN JULY AND OCTOBER 2012

- Study to independently validate the size and composition of Herbalife's end users
- Two independent studies took place using real time (aka "river") sampling, in which respondents were intercepted across a wide array of websites
- Sample size of 2,000 adults 18+ matched to U.S. census on age, gender, income, region and ethnicity
  - Exceeded consumer research industry best practices
- 90% confidence level



## **Fact:** Robust Brand Awareness

### BRAND AWARENESS – JULY 2012

74%



Aware

### BRAND AWARENESS – OCTOBER 2012

73%



Aware

+/- 1.6% margin of error

***Herbalife is a leading consumer product brand***



## Fact: Millions of Customers

### PURCHASING HISTORY – JULY 2012

5% Recent Purchases

x 114.2mm U.S. Households <sup>1</sup>

**= 5.7mm Purchasing Households**



5%



Purchased in Past 3 Months

+/- 0.8% margin of error

### PURCHASING HISTORY – OCTOBER 2012

5% Recent Purchases

x 114.2mm U.S. Households <sup>1</sup>

**= 5.7mm Purchasing Households**



5%



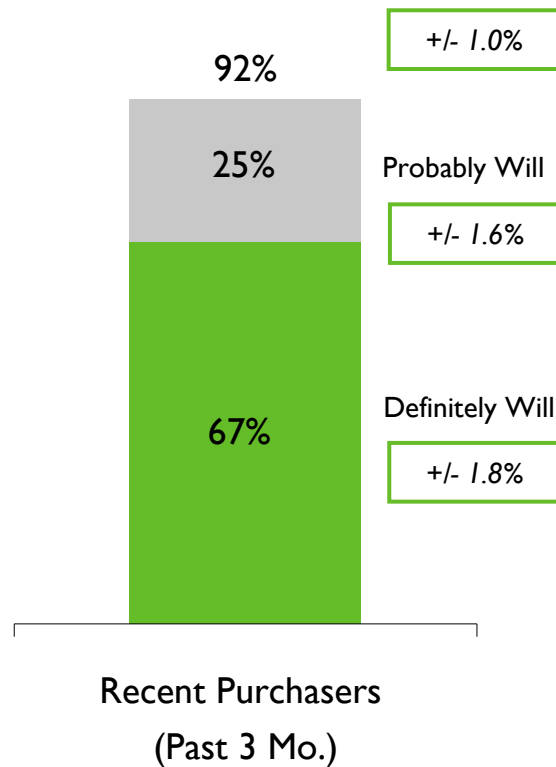
Purchased in Past 3 Months

**Study has consistently shown over five million  
purchasing households in the past three months**

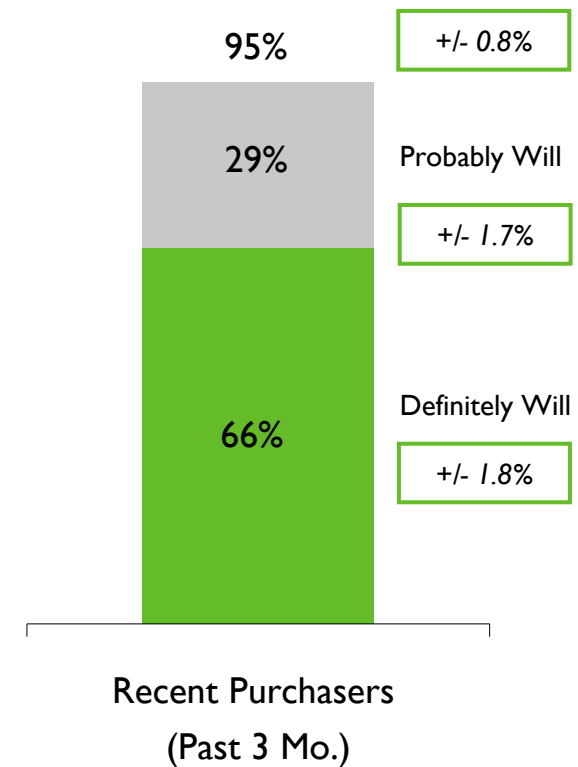



## Fact: Strong Repurchase Intent

### REPURCHASE INTENT – JULY 2012



### REPURCHASE INTENT – OCTOBER 2012



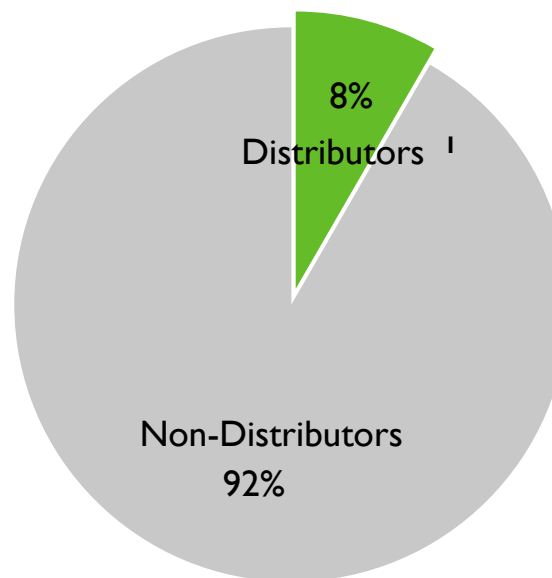
 Represents margin of error

**Over 90% of recent purchasers will likely purchase Herbalife products again in the future**

# **Fact: 92% of Consumers That Purchased the Product in the Last 3 Months are Non-Distributors**



## **PORTION OF PURCHASING U.S. HOUSEHOLDS WHO ARE NON-DISTRIBUTORS:**



Source: Consumer research survey conducted by Lieberman Research Worldwide, July and October 2012; U.S. Census

1. Calculated as 5.0% of households that purchased in past three months x 114,235,996 U.S. households / 480,000 active distributorships



# Background and Methodology

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## DISTRIBUTOR STUDY – JANUARY 2013

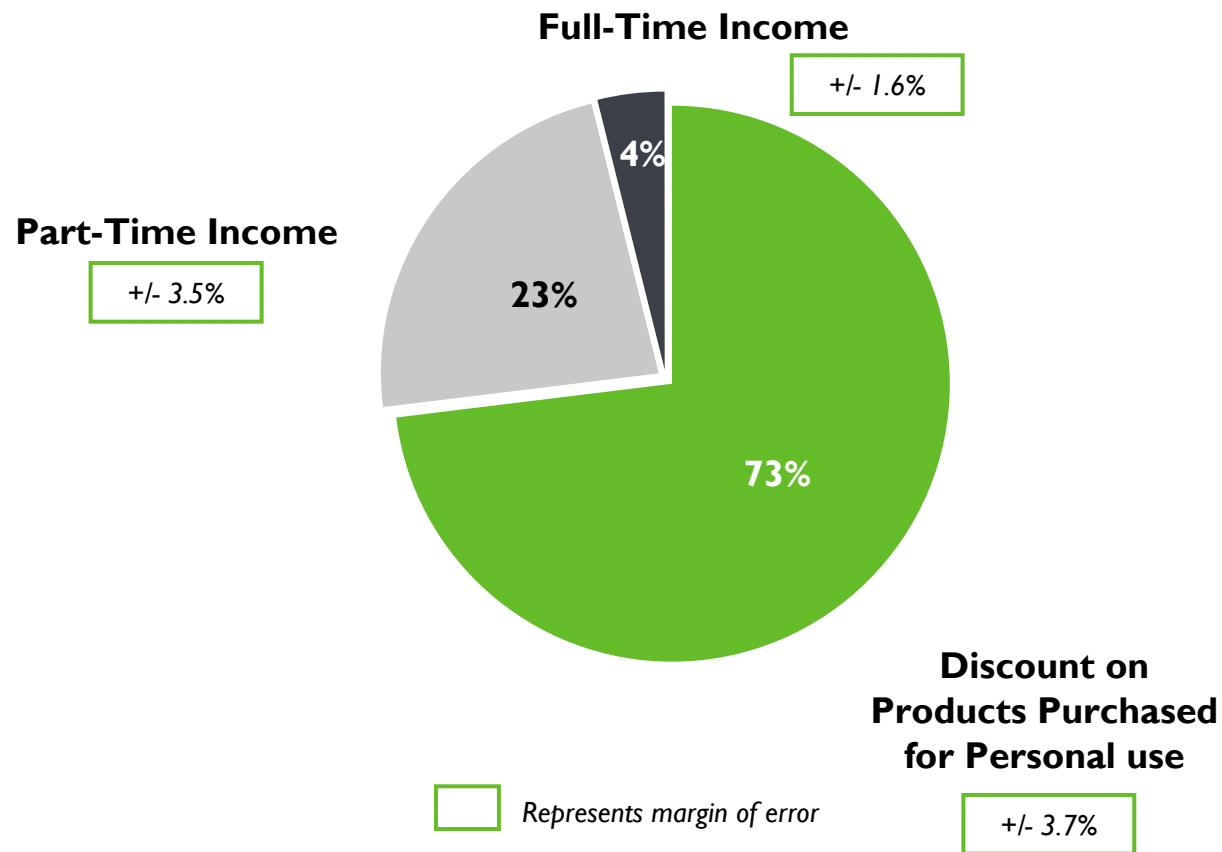
- Study to independently validate former Distributor expectations and satisfaction with Herbalife
- Conducted phone interviews using a list from the Herbalife database of former Distributors
- Sample size of 408 former Distributors
- 90% confidence level
- Survey designed to measure rationale for joining Herbalife, income expectations and likelihood of recommending Herbalife to friends and family



# **Fact: 73% of Former Distributors Joined for Product Discounts**



## **PRIMARY REASON FOR BECOMING AN HERBALIFE DISTRIBUTOR**



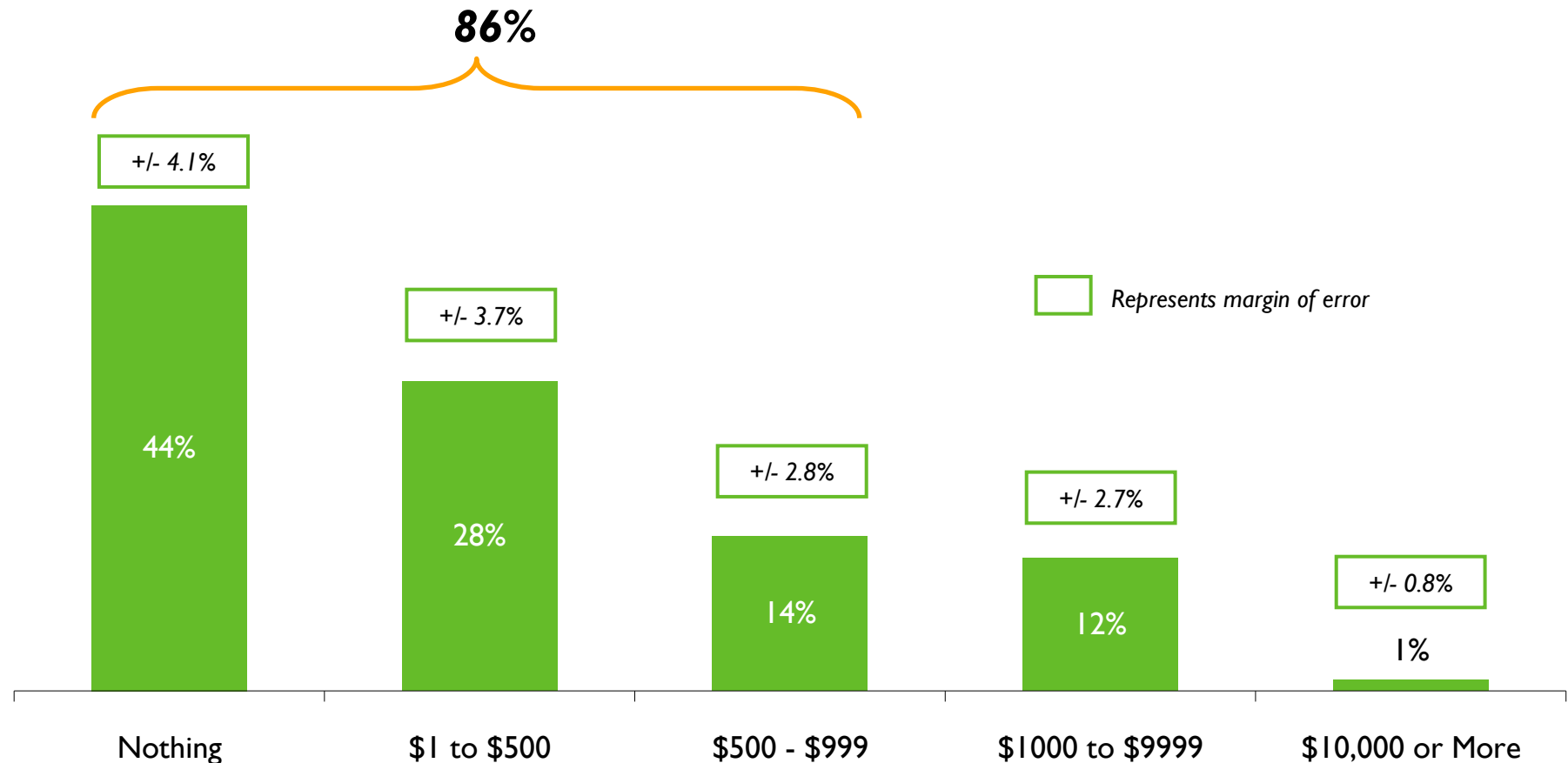
***Vast majority of Distributors do not join for a business opportunity***



# **Fact: 44% of Former Distributors Had Zero Earnings Expectations when Joining Herbalife**



## **MONTHLY EARNING EXPECTATIONS WHEN BECAME HERBALIFE DISTRIBUTOR**



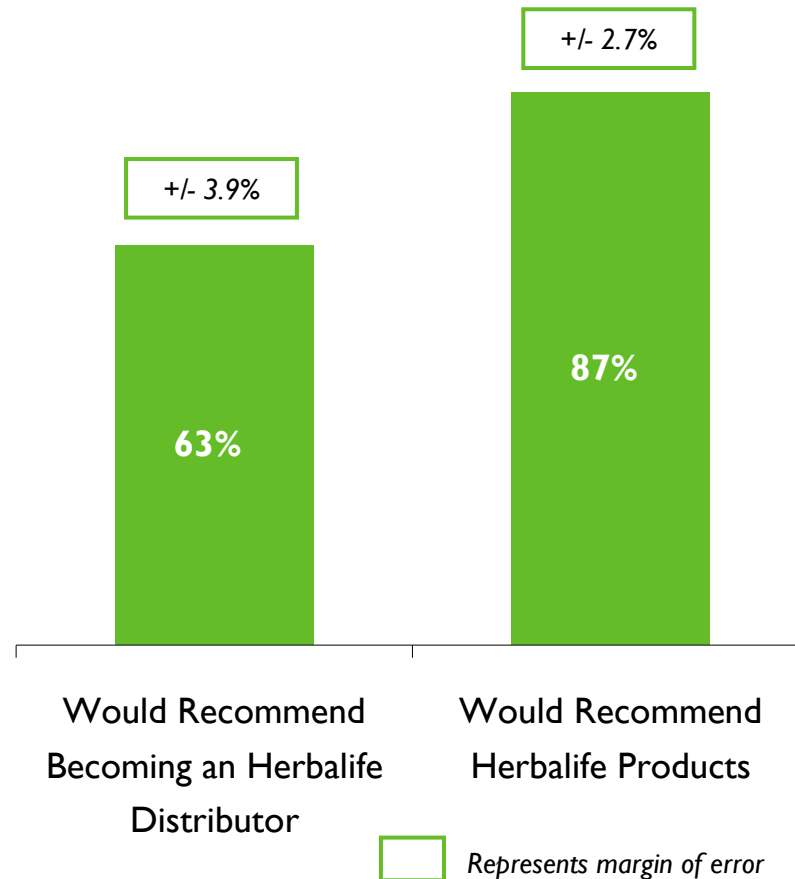
***Vast majority of Distributors expected to earn less than \$1,000 per month***



# **Fact:** Majority of Former Distributors Would Recommend Herbalife to Friends and Family



## RECOMMENDATION OF HERBALIFE PRODUCTS AND DISTRIBUTOR OPPORTUNITY



**Former Distributors view the Herbalife products and opportunity positively**



## ***Misrepresentation***

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*“Do we even know if any retail customers exist?”*

– Shane Dinneen  
December 20, 2012

*“Herbalife is in the business of selling dreams, not weight-management products.”*

– An Executive Summary of Pershing Square Capital Management’s  
“Who Wants to be a Millionaire?”  
January 8, 2013



# Herbalife Has a Robust and Thriving Consumer Base

*Lieberman's Research has confirmed what we have known for years*

## Consumer Related

- Brand awareness comparable to leading consumer product companies
- Over five million purchasing households in the past three months
- Strong purchase intent with 95% of recent purchasers likely to purchase Herbalife products again
- Large customer base outside of the Herbalife network (92%)

## Former Distributor Related

- 73% of former Distributors are discount buyers
- 44% of former Distributors expected to earn nothing and an incremental 42% expected to earn less than \$1,000 per month
- 87% of former Distributors would recommend Herbalife products to friends and family
- 63% of former Distributors would recommend becoming an Herbalife Distributor



## ***Fact:* Objective Data Validates Millions of Customers**

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- Direct ship to U.S. customers 31% of orders (32% of Volume)
- Product Buyback Results
  - Less than 0.5% of products are returned in the U.S.
- Ordering patterns representative of daily consumption initiatives
- More than 30,000 commercial Nutrition Clubs



## ***Fact:* Objective Data Validates Millions of Customers**

---

- Direct ship to U.S. customers 31% of orders (32% of Volume)
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## Herbalife Ships Directly to Non-Distributor Customers

---

- The majority of customer orders are shipped or delivered by Distributors to their customers
- However, in the U.S., Herbalife ships a portion of its volume directly to non-Distributor customers on behalf of Distributors
  - 1.4 million orders shipped directly to non-Distributor customers in the U.S. in 2012
  - 460,000 unique addresses
  - Average order of approximately 260 Volume Points
  - 31% of the orders in the U.S. were directly shipped to non-Distributor customers in fiscal year 2012



## ***Fact:* Objective Data Validates Millions of Customers**

---

- Direct ship to U.S. customers 31% of orders (32% of Volume)
- Product Buyback Results
  - Less than 0.5% of products are returned in the U.S.
- Ordering patterns representative of daily consumption initiatives
- More than 30,000 commercial Nutrition Clubs



# Setting the Record Straight: Product Buyback Policy

---

## **Misrepresentation:**

*Product in the “field” is not eligible to be returned to Herbalife*

*Buyback Policy does not protect Distributors from losses (10% Restocking Fee, time limit, etc.)*

*Herbalife’s buyback policy imposed too many restrictions*

*In some countries, Herbalife does not have a return policy*

*Resigning Distributors forfeit hard-earned downline forever*

## **Fact:**

■ **Herbalife Buyback policy accepts either product purchased directly from the Company or in the “field”**

■ **Herbalife does NOT have a restocking fee <sup>1</sup>**  
■ **12 months to return product**

■ **Industry standard; Minimal restrictions**

■ **Herbalife policy based on local market customs and business practices**  
■ **~93% of Volume Points are in markets with a buyback policy <sup>2</sup>**

■ **Distributors exercising buyback policy generally do not have active sales organizations**

---

1. Restocking fee was removed in May 2012

2. Based on nine months ending 09/30/12 and the inclusion of Mexico (product buyback policy began January 2013). Represents ~75% excluding Mexico



## ***Fact:* Objective Data Validates Millions of Customers**

---

- Direct ship to U.S. customers 31% of orders (32% of Volume)
- Product Buyback Results
  - Less than 0.5% of products are returned in the U.S.
- Ordering patterns representative of daily consumption initiatives
- More than 30,000 commercial Nutrition Clubs

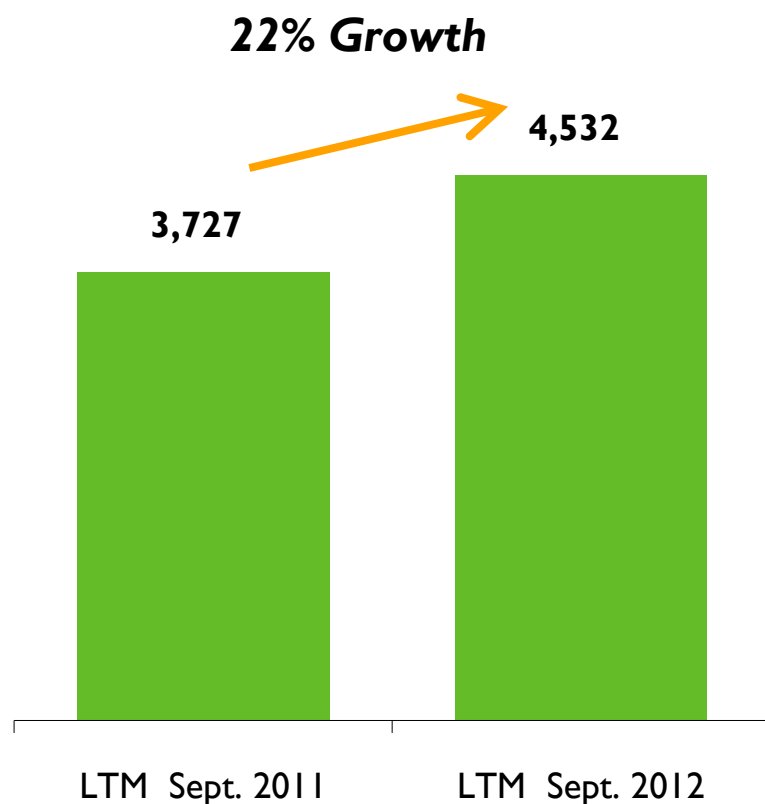


# Daily Consumption Increasing Customer Reach

*System transaction growth has outpaced Volume Points growth resulting in smaller Volume Points per order*

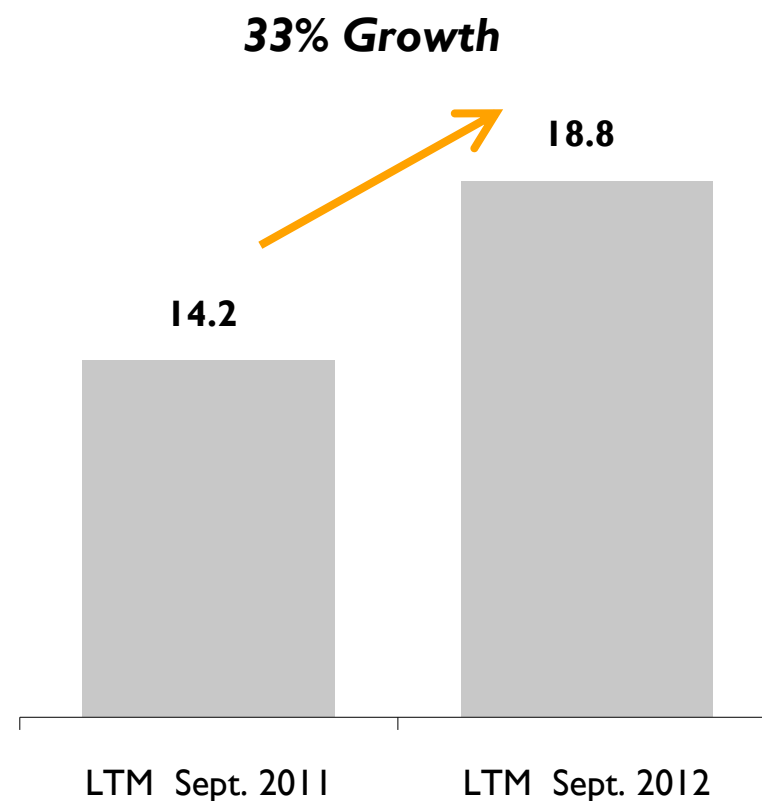
## LTM VOLUME POINTS AND GROWTH

(Volume Points in millions)



## LTM TOTAL ORDERS AND GROWTH

(Orders in millions)



**Ordering pattern trends reflective of effects from daily consumption**

# **Nutrition Clubs Video**

*Debunking Pershing Square's*

*Pyramid Scheme Misrepresentations*



HERBALIFE

# ③ Legitimate and Compliant Company

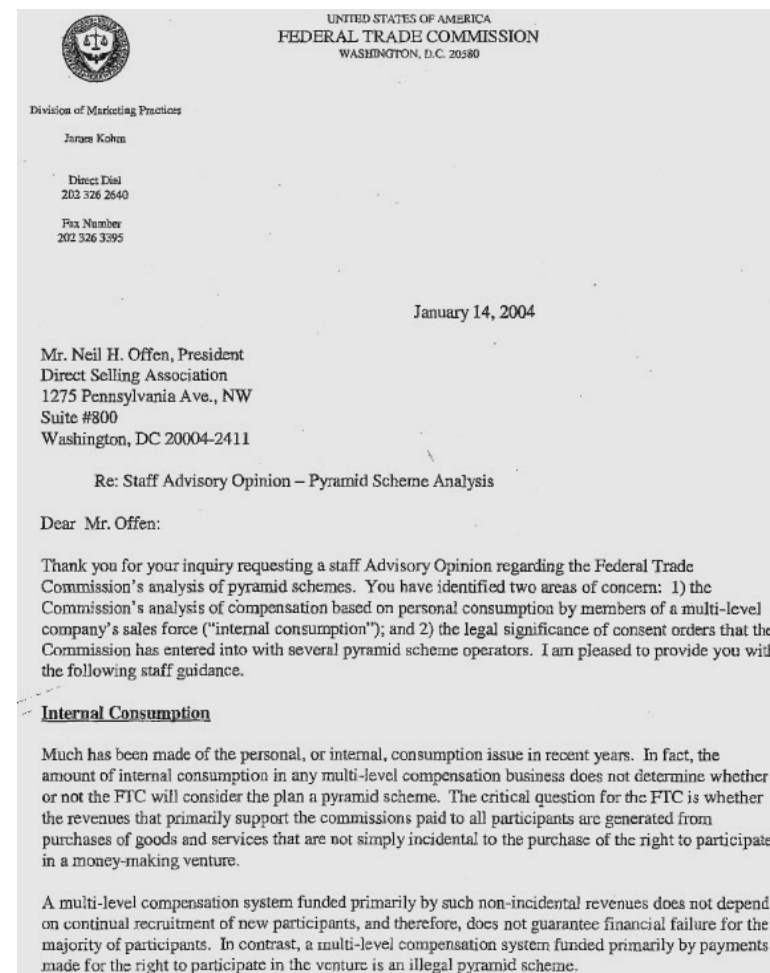
*Debunking Pershing Square's*

*Pyramid Scheme Misrepresentations*

# Stated Position of the FTC

## *2004 Letter of James A Kohm to the DSA: Staff Advisory Opinion - Pyramid Scheme Analysis*

- Requested by the Direct Selling Association
- Provides guidance on how the FTC staff will apply statutes and regulations to multi-level marketing businesses



## What does the FTC 2004 Staff Advisory Opinion Say?

---

*“The critical question for the FTC is whether the revenues that primarily support the commissions paid to all participants are generated from purchases of goods and services that are not simply incidental to the purchase of the right to participate in a money-making venture”<sup>1</sup> (Emphasis added)*

***What Does  
This Mean?***



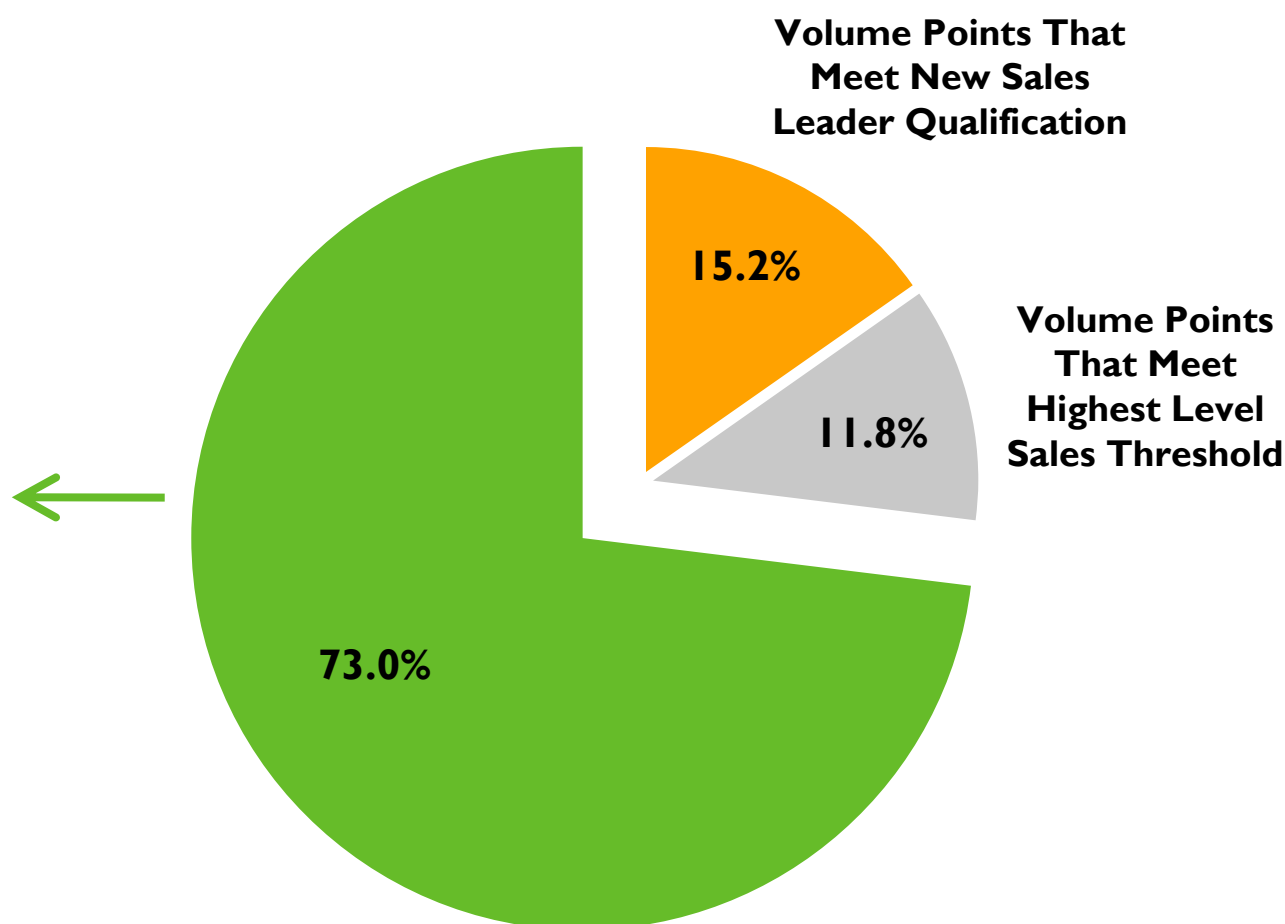
- **The primary motivation for purchasing should be resale and / or consumption**



# **Fact:** The Vast Majority of Purchases are **Not** Motivated by Qualification for MLM Rewards

YTD VOLUME POINTS BY PURCHASE RATIONALE (AS OF 09/30/12)

- Purchases that Do Not Qualify the Purchaser for a Royalty, Bonus, or Sales Leader Qualification (60%)
- Qualifying Purchases by Sales Leaders Whose Total Volume Points Significantly Exceed Sales Threshold (7%)
- Sales Leaders Whose Total Volume Points are Below Highest Level Sales Threshold (6%)



*Herbalife is compliant with FTC 2004 Staff Advisory Opinion*

## Herbalife's Policies Prohibit Pay to Play

---

- No minimum purchases **ever** required by any Distributor
- To remain a Distributor and be eligible for future commissions, no individual Distributor is required to purchase a minimum volume of product
  - It is possible to qualify for maximum royalties and production bonuses solely through the purchases of other Distributors



## ***Misrepresentation:***

### **New Distributors Do Not Have Equal Earning Opportunity**

---

*“One characteristic of pyramid schemes is the only real way to make money here, the big money, is to get in early. Okay, if you’re a late participant – and, by the way, today, 32 years later, you’re very late in Herbalife – your ability to get to the top is basically, the probability of that is very, very close to zero.”*

– William Ackman, December 20, 2012

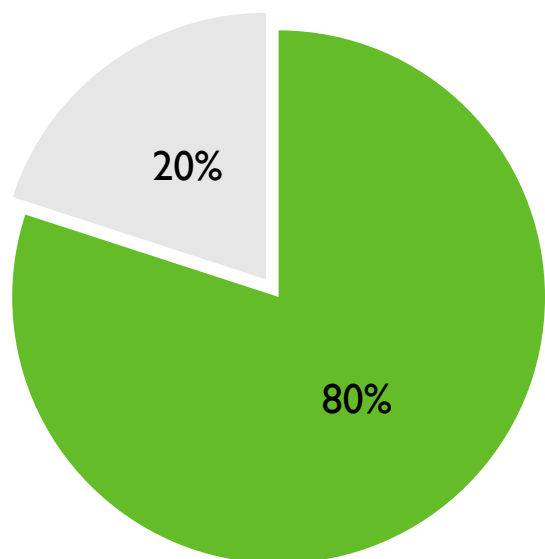


**Fact:**

## Newer Entrants Have an Equal Earning Opportunity

**TOP 100 EARNERS IN 2011**

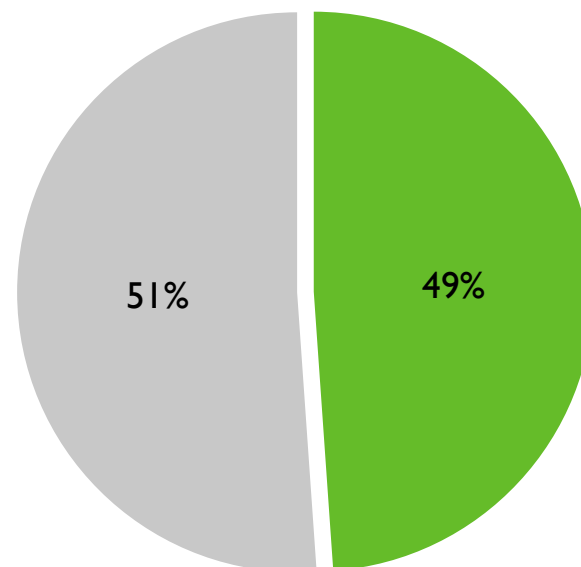
Earn Less  
Than Sponsor



Earn More  
Than Sponsor

**GLOBAL PRESIDENT'S TEAM IN 2011<sup>1</sup>**

Earn Less  
Than Sponsor



Earn More  
Than Sponsor

***Many newer entrants can and do receive higher compensation than their sponsors***

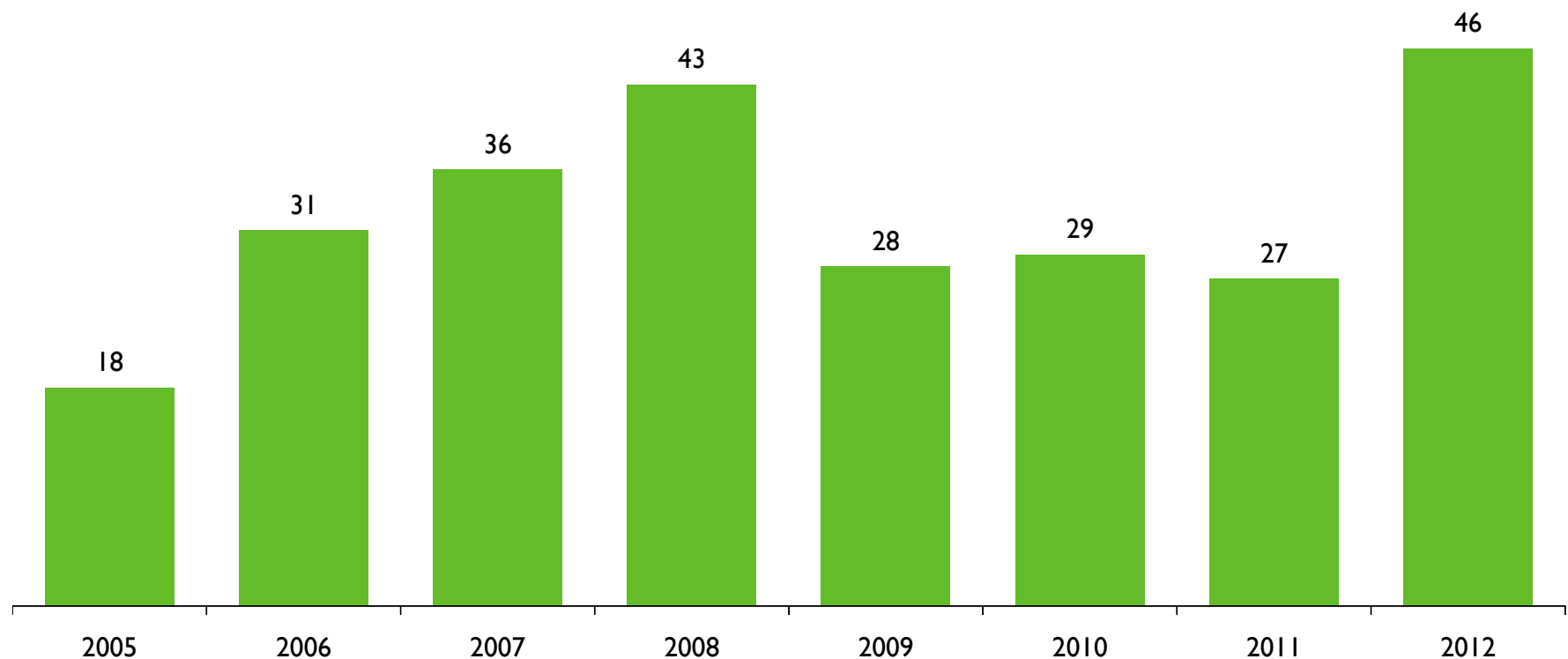
1. Excludes China; represents approximately 1,500 Distributors



**Fact:**

## Newer Entrants Have an Equal Earning Opportunity *(cont'd)*

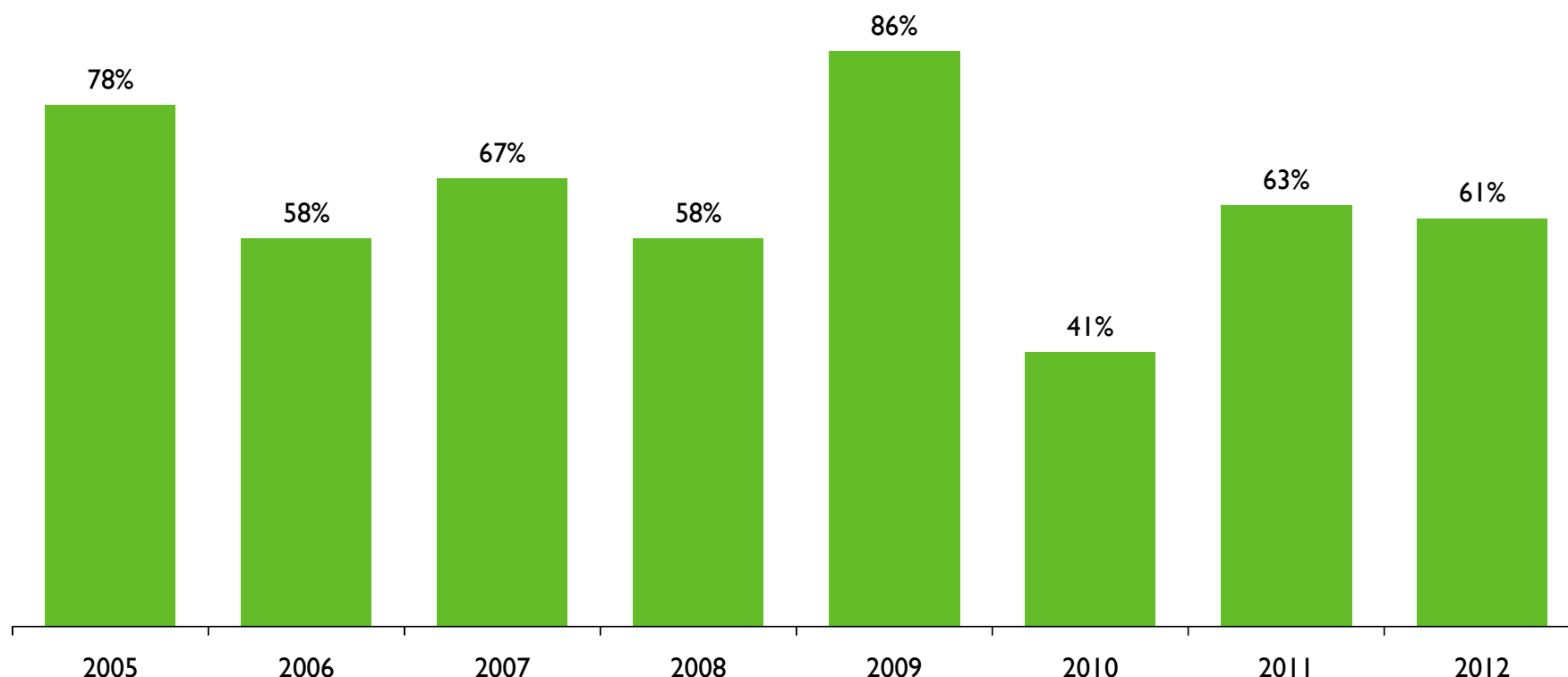
### NUMBER OF NEW U.S. PRESIDENT'S TEAM MEMBERS BY YEAR



**Fact:**

## Newer Entrants Have an Equal Earning Opportunity *(cont'd)*

### PERCENTAGE OF NEW U.S. PRESIDENT'S TEAM QUALIFYING IN LESS THAN 10 YEARS <sup>1</sup>



***Newer entrants are consistently advancing to the top***

- I. Represents for each year's new U.S. President's Team qualifiers, the percentage of Distributors that achieved President's Team status from Supervisor level in less than 10 years



# Setting the Record Straight: Litigation History

---

*Herbalife has a typical business litigation and regulatory history*

- Herbalife has grown its operations into 88 countries over the last 32 years
- Pershing Square cites over 270 cases, but the overwhelming majority of them are “run-of-mill” commercial litigation (i.e., employee litigation, wrongful termination, etc.)
  - They highlight eight lawsuits that allegedly relate to the Company’s business practices
- Other than Test-Aankoop (which is on appeal and we discuss on the following pages in detail), no court has ever ruled that Herbalife operates a pyramid scheme



# Setting the Record Straight: Belgium

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## BACKGROUND

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- Suit filed September 2004
- Judgment rendered November 2011 that Herbalife violates Belgium pyramiding law based on the belief that Herbalife pays to recruit
  - Herbalife believes the decision is legally and factually wrong and is confident that it will be reversed on appeal

## HERBALIFE DOES NOT PAY TO RECRUIT

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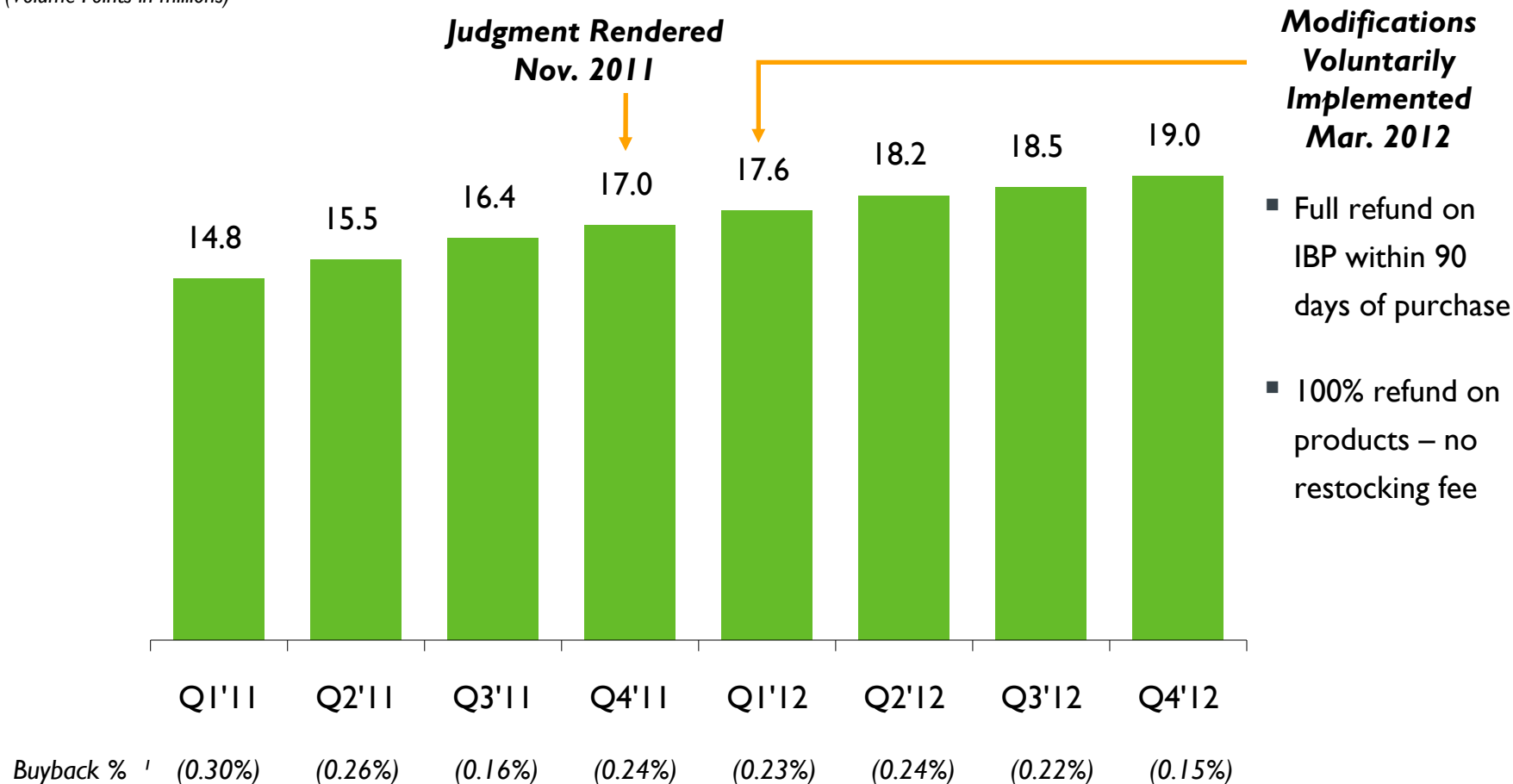
- **\$0** fee, bonus or award is paid on the sale of an International Business Pack
- **0** Volume Points are awarded to any Distributor
- No minimum purchases **ever** required by any Distributor



# Setting the Record Straight: Belgium (cont'd)

## LTM HISTORICAL VOLUME POINTS

(Volume Points in millions)



**FACT: Herbalife has demonstrated its ability to modify its business practices and continue on a positive growth trajectory**

Note: Q4'12 based on preliminary, unaudited figures  
 1. Represents buyback as a percentage of net sales



**HERBALIFE**

# **④ Volume and Revenue Driven by Mature Markets**

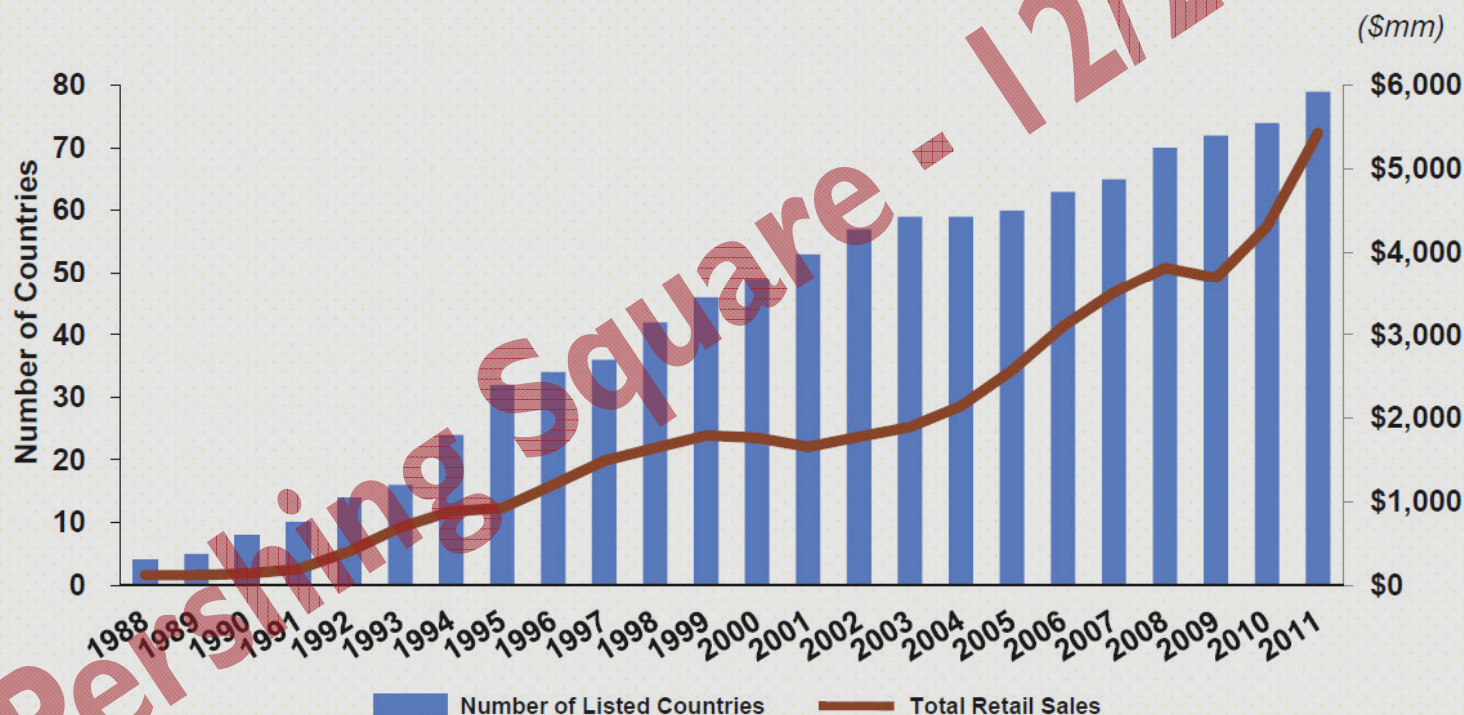
*Debunking Pershing Square's*

*Pyramid Scheme Misrepresentations*

# Misrepresentation

## As Herbalife Enters New Regions, 'Drops' In Mature Markets are Masked By the 'Pops' of New Markets...

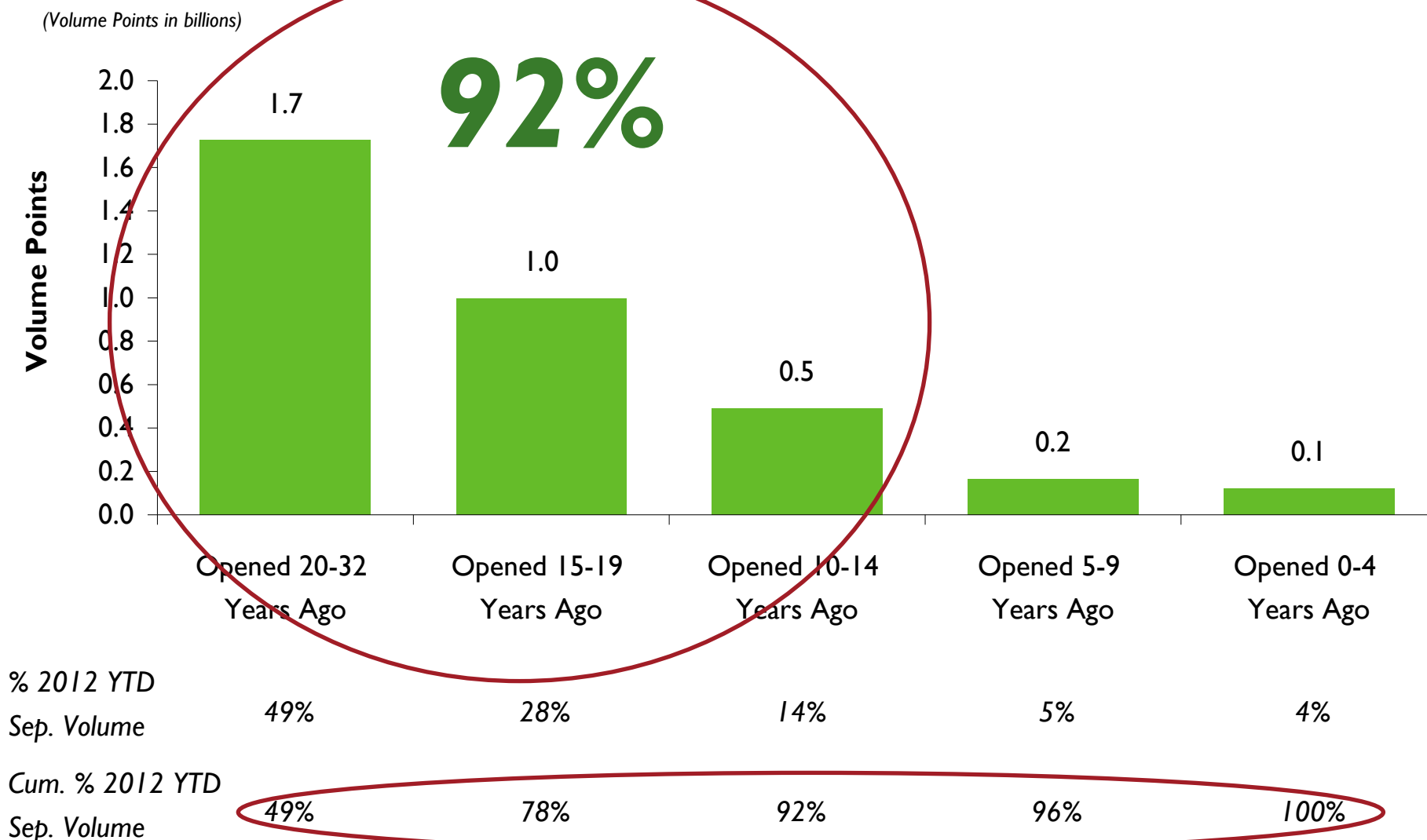
Number of Listed Countries vs. Total Retail Sales



Source: Herbalife filings.

## Fact: Substantial Volume from Mature Markets

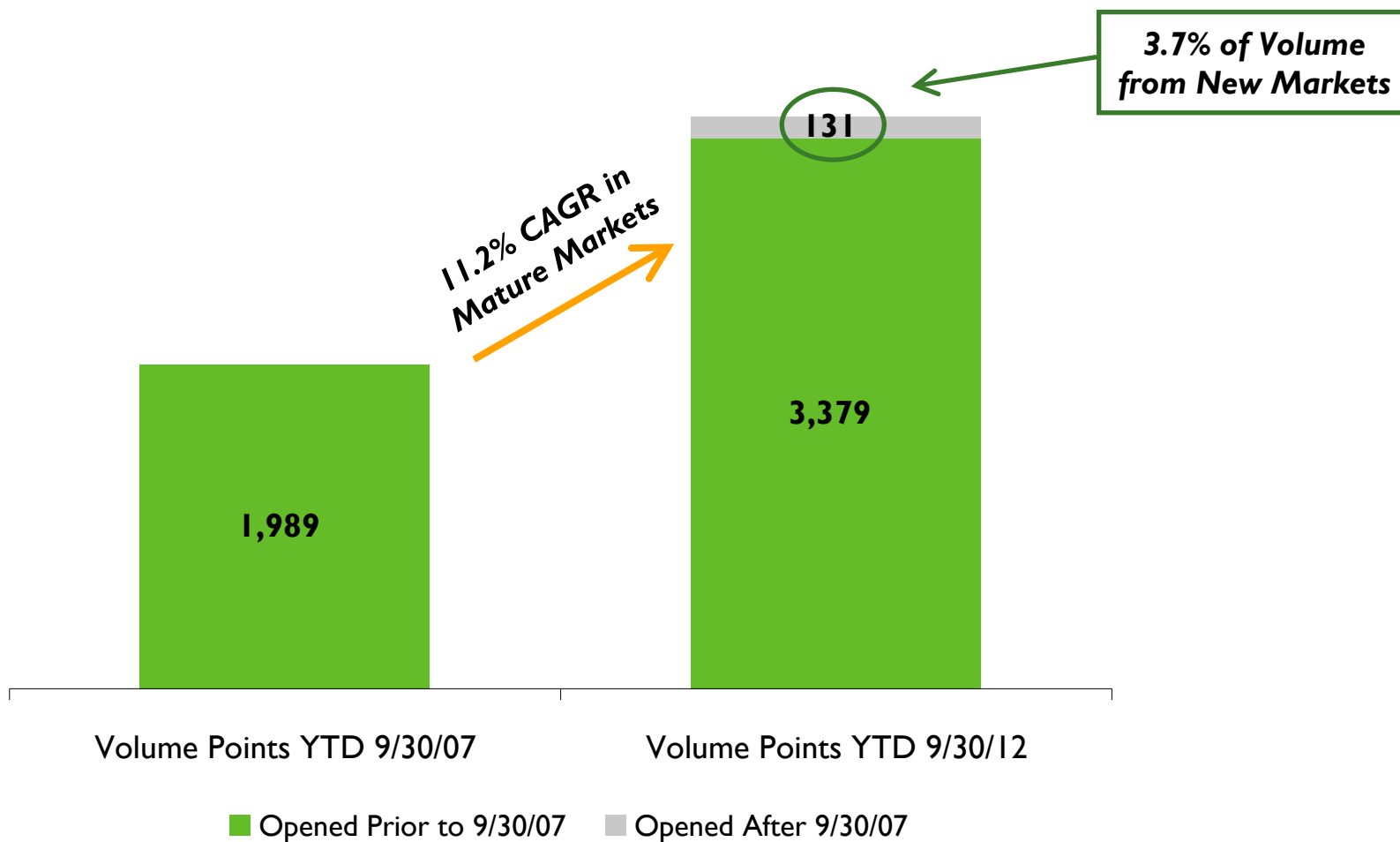
**92% of Herbalife's 2012 YTD September volume came from markets we entered more than 10 years ago**



## Fact: Mature Markets Driving Majority of Growth

### VOLUME POINT GROWTH IN MATURE MARKETS

(Volume Points in millions)



Note: YTD 9/30 represents the nine months ending 9/30 of the indicated year

## ***Misrepresentation:*** **Pop and Drop in Market Segments**

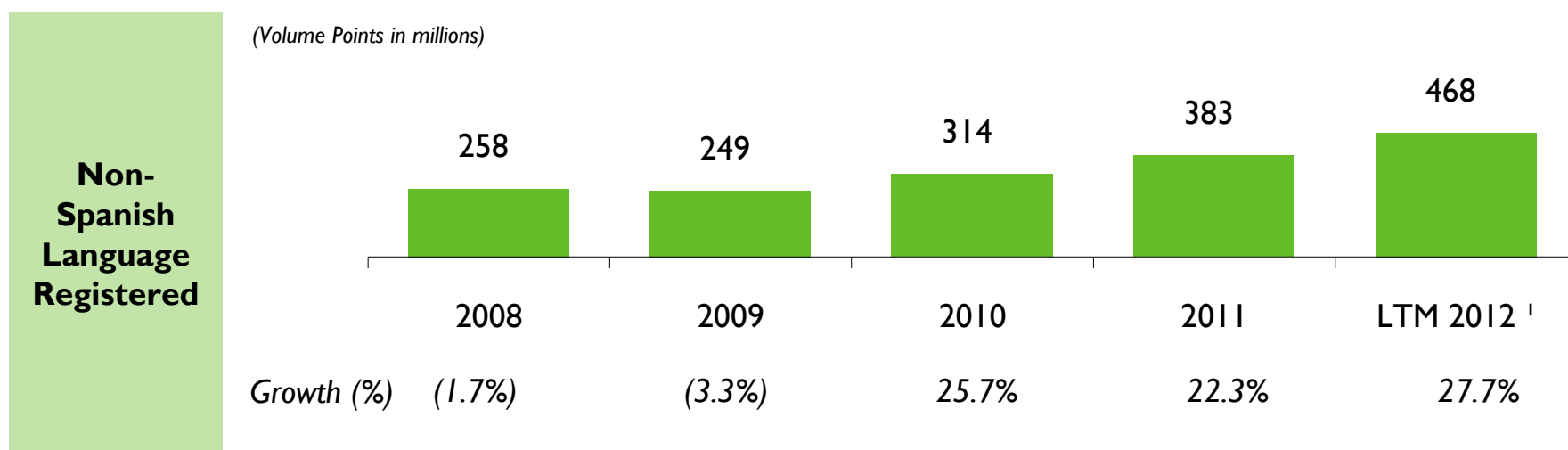
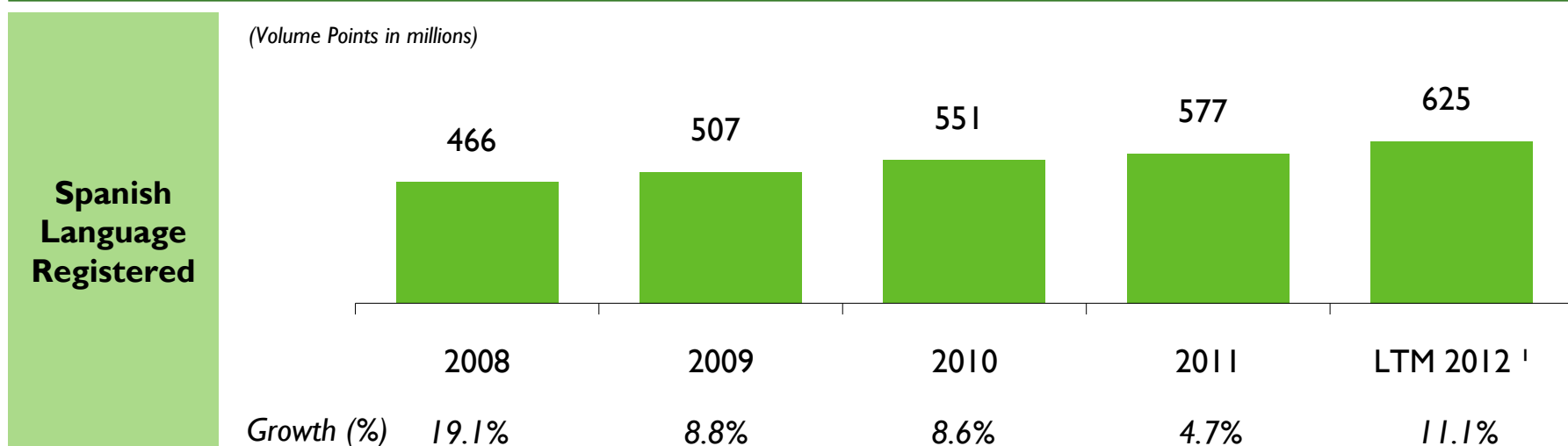
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*“Even within the North America market, however, Herbalife’s growth appears to be a story of “popping” Latino Nutrition Clubs versus a “dropping” ‘core’ U.S. customer base. In mature markets, Herbalife simply moves from one affinity group to the next until each sub-market has reached its saturation point.”*

– An Executive Summary of Pershing Square Capital Management’s  
“Who Wants to be a Millionaire?”  
January 8, 2013



## **Fact:** Sustainable Growth in Both Latino and Non-Latino Consumers In U.S.



1. LTM 2012 growth represents growth over LTM 2011





HERBALIFE

## ⑤ Financial Integrity and Transparency

*Debunking Pershing Square's*

*Pyramid Scheme Misrepresentations*

## ***Misrepresentation:***

### **Herbalife's Accounting Attempts to Conceal**

---

**Herbalife's accounting attempts to conceal the total amount of commissions paid to distributors and increase the amount of so-called "Retail Profit"**

## ***Fact:* Our Policies are in Accordance with GAAP and SEC Guidelines**

---

- Based upon our rigorous internal review, the audit and concurrence by KPMG LLP (our independent auditors and their national office), and the consultation with legal and accounting professionals who previously held senior positions at the SEC, we are comfortable that our disclosures and accounting conform with both federal securities law and Generally Accepted Accounting Principles
  
- Public filer and NYSE listed company since 2004
  - Received an Unqualified Audit Opinion each year
  
  - No Sarbanes-Oxley (SOX) material weaknesses noted since SOX instituted



# Misrepresentation:

## Retail Sales are Recorded on Herbalife's P&L

### How Would Herbalife's P&L Look If "Retail Sales" were Recorded Based on Actual Retail Prices?

Herbalife P&L (2011a)			
(\$ mms)	As Reported (100% SRP)	As Adjusted (65% SRP) <sup>(1)</sup>	
"Retail Sales"	\$5,428	\$3,528	Decreases
Distributor Allowances ("Retail Profit") <sup>(2)</sup>	(2,483)	(583)	Decreases
Product Sales	\$2,945	\$2,945	
S&H revenues	510	510	
Net Sales	\$3,455	\$3,455	
Cost of sales	(680)	(680)	
Royalty overrides	(1,138)	(1,138)	Unchanged
SG&A	(1,075)	(1,075)	
EBIT	\$562	\$562	

(1) Illustratively assumes actual retail price is 35% off Suggested Retail Price.

(2) Herbalife refers to Distributor Allowances as "Retail Profit" in its 2009 Investor Day presentation.

# Fact: Only Net Sales are Recorded on Herbalife's P&L

## How Would Herbalife's P&L Look If "Retail Sales" were Recorded Based on Actual Retail Prices?

<b>Herbalife P&amp;L (2011a)</b>		
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SG&A	(1,075)	(1,075)
EBIT	\$562	\$562

Not part of  
Herbalife's P&L

Decreases

Decreases

Herbalife's P&L  
starts here

Unchanged

(1) Illustratively assumes actual retail price is 35% off Suggested Retail Price.  
 (2) Herbalife refers to Distributor Allowances as "Retail Profit" in its 2009 Investor Day presentation.

# **Fact: Only Net Sales are Recorded on Herbalife's P&L** (cont'd)

**No Retail Sales  
on Herbalife's P&L**

## HERBALIFE LTD. CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31,

	2011	2010	2009
	(In thousands, except per share amounts)		
Product sales	\$ 2,944,722	\$ 2,337,493	\$ 1,993,617
Shipping & handling revenues	509,815	336,533	330,960
Net sales	3,454,537	2,734,226	2,324,577
Cost of sales	680,084	558,811	493,134
Gross profit	2,774,453	2,175,415	1,831,443
Royalty overrides	1,137,560	900,248	761,501
Selling, general and administrative expenses	1,074,623	887,655	773,911
Operating income	562,270	387,512	296,031
Interest expense	9,864	9,664	9,613
Interest income	7,373	2,247	4,510
Income before income taxes	559,779	380,095	290,928
Income taxes	147,201	80,880	87,582
NET INCOME	\$ 412,578	\$ 299,215	\$ 203,346
Earnings per share			
Basic	\$ 3.51	\$ 2.51	\$ 1.66
Diluted	\$ 3.30	\$ 2.37	\$ 1.61
Weighted average shares outstanding			
Basic	117,540	119,004	122,442
Diluted	124,846	126,495	126,194

See the accompanying notes to consolidated financial statements.

## Retail Sales are Disclosed in MD&A

*The retail price paid for Herbalife's products does not change Net Sales*

*"We discuss retail sales because of its fundamental role in our compensation systems, internal controls and operations, including its role as the basis upon which distributor discounts, royalties and bonuses are awarded. In addition, it is used as the basis for certain information included in daily and monthly reports reviewed by our management."*

*- MD&A excerpt, Herbalife 10-K ending 12/31/2011*

	Year Ended December 31,					
	2011	2010	2009	2008	2007	
	(In thousands)					
Retail sales	\$ 5,427,844	\$ 4,306,262	\$ 3,690,061	\$ 3,811,159	\$ 3,511,003	
Distributor allowance	(2,483,122)	(1,968,769)	(1,696,444)	(1,778,866)	(1,658,569)	
Product sales	2,944,722	2,337,493	1,993,617	2,032,293	1,852,434	
Shipping & handling revenues	509,815	396,733	330,960	326,920	293,405	
Net sales	\$ 3,454,537	\$ 2,734,226	\$ 2,324,577	\$ 2,359,213	\$ 2,145,839	

# Misrepresentation: Company Does Not Follow EITF 01-9

“We think Herbalife should account for [wholesale commissions] the same way in operating expenses, not as a reduction to net sales.”

– Shane Dinneen, December 20, 2012

## Wholesale Commissions ≠ Retail Profit (cont'd)

### Other MLMs account for Wholesale Commissions as operating expenses

#### “Revenue Recognition

The Company receives payment by credit card, personal check, or guaranteed funds for orders from independent distributors and makes related commission payments in the following month. Net sales reflect product sales less the distributor discount of 20 percent to 40 percent of the suggested retail price. Sales revenue and commission expenses are recorded when the merchandise is shipped, as this is the point title and risk of loss pass. In accordance with EITF 01-09, the Company presents distributor royalty and commission expense as an operating expense, rather than a reduction to net sales, as these payments are not made to the purchasing distributor.

– Reliv International, Inc. Annual Report (2007)

## RELIV INTERNATIONAL

- Ticker: RELV (NASDAQ)
- Market Capitalization: \$15.5 million <sup>1</sup>
- 2011 Net Sales: \$73.9 million
- 2011 EBITDA: \$2.9 million
- 57,010 Distributors

## **Fact:** Our Net Sales are Recorded based on EITF 01-9

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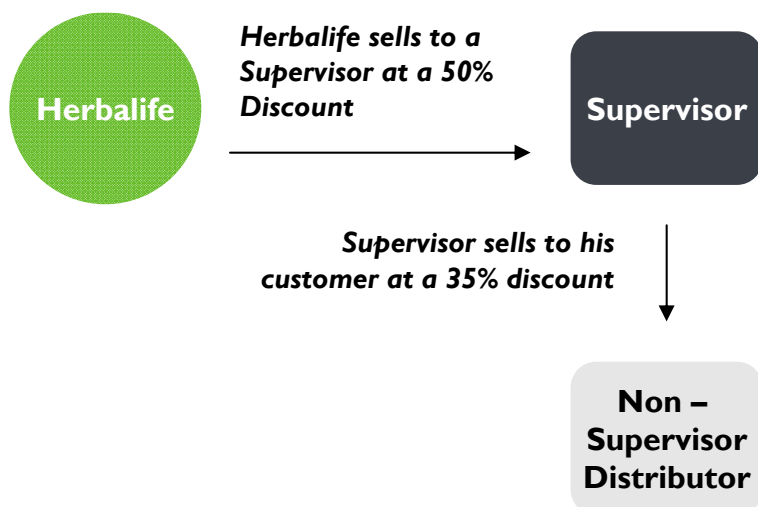
- “Wholesale commissions” are treated as a form of discount
  - Approved by local and national offices of KPMG LLP, our independent auditor
- The proposed alternative would involve recording rebates in SG&A instead of net sales and would **increase net sales without impacting profitability**



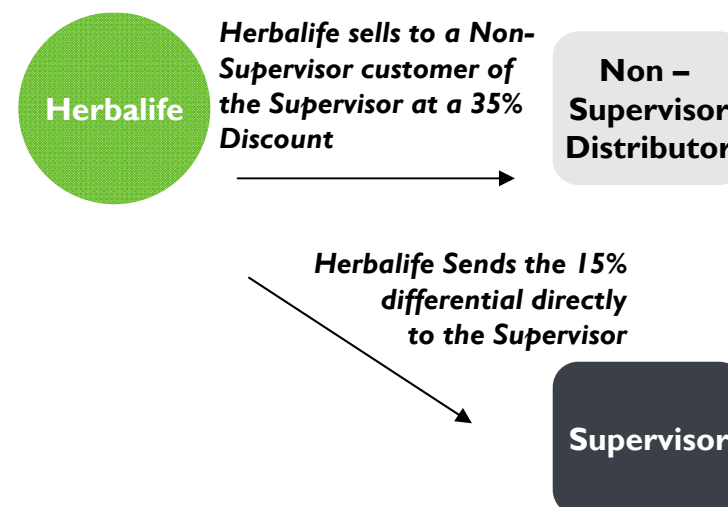
# The Proposed Alternative Would Have No Impact on Profitability

*Pershing Square's methodology would also cause transactions with identical real world economic effects to receive different accounting treatments*

## EXAMPLE 1<sup>1</sup>



## EXAMPLE 2<sup>1</sup>



## EXAMPLE 2 ACCOUNTING

Under Pershing Square's proposed alternative, net sales would increase but profit would remain the same

	Current Presentation Herbalife	Incorrect Presentation Pershing	Delta
Retail Sales	\$100	\$100	\$ --
Distributor Allowance	(50)	(35)	(15)
<b>Net Sales</b>	<b>\$50</b>	<b>\$65</b>	<b>\$15</b>
SG&A	--	(\$15)	(\$15)
<b>Profit</b>	<b>\$50</b>	<b>\$50</b>	<b>\$ --</b>

1. For illustration purposes only

# Misrepresentation:

## Royalty Overrides are “Recruiting Rewards”

### Summary: Recruiting Rewards are Greater than Retail Profit

#### HLF Representation

	2011a	
	Amt.	Pct.
Retail Sales (@ SRP) (1)	\$5,264	100%
Distributor Allowances (1)	\$2,492	47%
Less: Internal Consumption	-	-
Less: Actual Retail Price adj.	-	-
Less: Wholesale Commissions	-	-
<b>Retail Profit</b>	<b>\$2,492</b>	<b>47%</b>
Royalty overrides (2)	\$1,138	22%
Plus: Wholesale Commissions	-	-
Plus: Rewards in SG&A	-	-
<b>Recruiting Rewards</b>	<b>\$1,138</b>	<b>22%</b>
<b>Payout Ratio</b>		<b>69%</b>
<b>% of Payout that is Recruiting Rewards</b>		<b>31%</b>

#### Reality

	2011a	
	Amt.	Pct.
Retail Sales (@ SRP) (1)	\$5,264	100%
Distributor Allowances (1)	\$2,492	47%
Less: Internal Consumption (3)	(748)	(14%)
Less: Actual Retail Price adj. (4)	(1,290)	(25%)
Less: Wholesale Commissions (5)	(311)	(6%)
<b>Retail Profit</b>	<b>\$144</b>	<b>3%</b>
Royalty overrides (2)	\$1,138	22%
Plus: Wholesale Commissions (5)	311	6%
Plus: Rewards in SG&A (6)	291	6%
<b>Recruiting Rewards</b>	<b>\$1,739</b>	<b>33%</b>
<b>Payout Ratio</b>		<b>36%</b>
<b>% of Payout that is Recruiting Rewards</b>		<b>92%</b>

(1) 2011a Retail Sales and Distributor Allowances exclude literature, promotional and other. Distributor Allowances percentage is less than 50%, as Herbalife Sales Leaders purchase at less than 50% discounts in certain markets. Source: HLF 10-K.  
 (2) Defined as sales proceeds from sales to non-distributors at Actual Retail Price.  
 (3) Assumes 30% of product is self-consumed.  
 (4) Assumes Actual Retail Price is 35% off SRP, applied to 70% of Retail Sales (@ SRP).  
 (5) Treats Wholesale Commissions as Recruiting Rewards.  
 (6) Assumes \$291mm of SG&A are Recruiting Rewards.

## Setting the Record Straight: Recruiting Rewards

---

**Misrepresentation:** Pershing Square characterizes ALL payments from Herbalife to any Distributor as “Recruiting Rewards”

**Fact:** Herbalife believes, based on internal and external data, that substantially all of our products are retailed or self-consumed

- Therefore, substantially all of our upline payments to Distributors are sales based payments
  
- Herbalife **Does Not** pay to recruit
  - **\$0** fee, bonus or award is paid on the sale of an International Business Pack
  - **0** Volume Points are awarded to any Distributor
  - No minimum purchases **ever** required by any Distributor



# Misrepresentation: 50% of Distributor Facing Expenses in SG&A are Recruiting Rewards

## Quantifying Recruiting Rewards in SG&A

Using the Company's 2008 statement that half of "Distributor Facing" expenses are vacation packages, one-time cash bonuses, Herbalife pins and watches, and other similar promotions that can only be gained via recruiting, \$291mm of Herbalife's SG&A in 2011 were Recruiting Rewards

### Recruiting Rewards in SG&A

(\$mms)	2011a
SG&A	\$1,075
% Distributor Facing expenses (1)	54%
Distributor Facing expenses	\$582
% of Distributor Facing expenses that are Recruiting Rewards (2)	50%
Recruiting Rewards in SG&A	<b>\$291</b>

(1) Assumes 54% of SG&A is Distributor Facing expenses (per Herbalife's Investor Day presentation on 12-16-08).  
 (2) Pershing Square assumption.

# **Fact:** Herbalife Never Stated that 50% of “Distributor Facing” Expenses Were Promotion Related

## Quantifying Recruiting Rewards in SG&A

Using the Company’s 2008 statement that half of “Distributor Facing” expenses are vacation packages, one-time cash bonuses, Herbalife pins and watches, and other similar promotions that can only be gained via recruiting, \$291mm of Herbalife’s SG&A in 2011 were Recruiting Rewards

**FALSE**

### Recruiting Rewards in SG&A

(\$mms)	2011a
SG&A	\$1,075
% Distributor Facing expenses (1)	54%
Distributor Facing expenses	\$582
% of Distributor Facing expenses that are Recruiting Rewards (2)	50%
Recruiting Rewards in SG&A	\$291

(1) Assumes 54% of SG&A is Distributor Facing expenses (per Herbalife’s Investor Day presentation on 12/14/09).

(2) Pershing Square assumption.

(2) Pershing Square assumption.

# **Fact: Only 6.2% of Distributor Facing Expenses Are Promotions to Drive Sales <sup>1</sup>**

## **Quantifying Recruiting Rewards in SG&A**

Using the Company's 2008 statement that half of "Distributor Facing" expenses are vacation packages, one-time cash bonuses, Herbalife pins and watches, and other similar promotions that can only be gained via recruiting, \$291mm of Herbalife's SG&A in 2011 were Recruiting Rewards

### **Recruiting Rewards in SG&A**

(\$mms)	2011a
SG&A	\$1,075
% Distributor Facing expenses (1)	54%
Distributor Facing expenses	\$582
% of Distributor Facing expenses that are Recruiting Rewards (2)	50%
Recruiting Rewards in SG&A	\$291

- In 2011, Herbalife spent \$36 million on Distributor promotions to drive sales
- Herbalife does NOT pay to recruit

Actually  
→

**\$36**

(1) Assumes 54% of SG&A is Distributor Facing expenses (per Herbalife's Investor Day presentation on 12-16-08).  
(2) Pershing Square assumption.

# Misrepresentation

## HLF Re-classified the Countries that Comprise the America's Region Four Times in the Last Five Years

**Geographic Presence in The Americas <sup>(1)</sup>**

Country	Year Entered	2005A	2006A	2007A	2008A	2009A
United States	1980					
Canada	1982					
Jamaica	1999					
Dominican Republic	1994					
Venezuela	1994					
Argentina	1994					
Brazil	1995					
Chile	1997					
Panama	2000					
Colombia	2001					
Bolivia	2004					
Mexico	1989					
Costa Rica	2006	NA				
Peru	2006	NA				
El Salvador	2007	NA	NA			
Ecuador	2008	NA	NA	NA		
Honduras	2008	NA	NA	NA		
Nicaragua	2008	NA	NA	NA		
Guatemala	2008	NA	NA	NA		
Paraguay	2009	NA	NA	NA	NA	
Aruba	2010	NA	NA	NA	NA	NA

**Classification**

- The Americas
- North America
- South America/ Southeast Asia
- Mexico/ Central America
- South America
- South/ Central America

**In 2006, South America was grouped with Southeast Asia**

(1) Source: Herbalife filings. Southeast Asia portion of South America/ Southeast Asia includes: Australia, New Zealand, Philippines, Thailand, Indonesia, India, Singapore and Malaysia.

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In 2006, South America and Southeast Asia were grouped because one general manager was overseeing both regions; This grouping made logical business sense


# **Fact: Herbalife Has Not Re-classified Regions in the Last Four Years**

- The only re-classification in the last five years in the Americas region was combining Central America and South America
  - And that change was made four years ago
  - No change in 2012, 2011, 2010 or 2009
- Segment disclosure rules required the change to the geographical financial disclosures as a result of changes to the Company's business and management structure

## **Geographic Presence in The Americas**

Country	Year Entered	2009A	2010A	2011A	2012A
United States	1980	South / Central America	South / Central America	South / Central America	South / Central America
Canada	1982				
Jamaica	1999				
Dominican Republic	1994				
Venezuela	1994				
Argentina	1994				
Brazil	1995				
Chile	1997				
Panama	2000				
Colombia	2001				
Bolivia	2004				
Mexico	1989				
Costa Rica	2006				
Peru	2006				
El Salvador	2007	South / Central America	South / Central America	South / Central America	South / Central America
Ecuador	2008				
Honduras	2008				
Nicaragua	2008				
Guatemala	2008				
Paraguay	2009				
Aruba	2010	NA	North America	North America	North America

### Classification

	North America
	South / Central America

Note: Aruba was rolled up into North America until 2012, thereafter in South / Central America

# Setting the Record Straight: What is a Distributor?

- As used by Herbalife, the term Distributor includes each of:
  - Discount Buyer: NOT eligible for MLM compensation
  - Single Level Distributor: NOT eligible for MLM compensation
  - Supervisor / Sales Leader: Eligible to receive MLM compensation

**73%** of  
Distributors join  
primarily for  
discount purchase<sup>1</sup>

## Misrepresentation:

“The top 1 percent of Herbalife distributors receive 88% of the rewards”

– Pershing Square – 12/20/12 (p74)

**Pershing Square assumes ALL Distributors  
joined to receive MLM rewards**

**Fact:** The top 1% of Sales Leaders receive less than 63% of total MLM compensation<sup>2</sup>

1 Distributor research survey conducted by Lieberman Research Worldwide, January 2013  
2 Based on 2011 for comparability

# Financial Summary

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- Net Sales of \$3.9 billion <sup>1</sup>
- EBITDA of \$709 million <sup>1</sup>
- Strong Balance Sheet
  - Net Debt of approximately \$180 million (0.3x Net Leverage) as of Sep. 30, 2012
- Returned ~\$1.9 billion of capital to shareholders since 2007
- Authorized share repurchase program \$1 billion of which \$950 million remains available





# Herbalife Video

*Our Business*

# Anne Coughlan, PhD

*John L. & Helen Kellogg Professor, Kellogg  
School of Management, Northwestern  
University*

## MLM Landscape: Herbalife is a Leader

AVON

the company for women

Amway

ARBONNE®



The Pampered Chef®  
discover the chef in you™

Owned by Berkshire Hathaway



HERBALIFE

MARY KAY

Tupperware



## **What is Multi-Level Marketing (MLM)?**

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- A form of direct selling
- Each distributor contracts directly with the MLM firm
- Distinguished by its distributor compensation plan, in which distributor may earn:
  - Markup on own sales (as in any other distribution channel)
  - Compensation for sales to downline for resale and personal use (analogous to override commissions for sales managers in other sales force structures)
- No compensation merely for recruitment; so, recruiting a downline who neither buys nor sells generates no income to the upline distributor
- All distributors are rewarded under the same compensation plan
- **MLM can persist indefinitely and is not dependent on recruitment for survival**



## **MLM is Well Established and Effective**

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- MLM's effectiveness and persistence is due to:
  - Well designed split of duties between the MLM company and its distributors
    - Distributors have a comparative advantage in sales effort
    - Some distributors are also skilled at mentoring and developing other distributors
    - MLM company is skilled at product development, compensation administration, IT management, etc.
  - Well designed compensation plan to incentivize distributors to perform their assigned functions
    - Comp on own sales rewards selling (markup + commission)
    - Comp on downlines' group sales rewards mentorship, development
  - Openness to aspiring distributors, along with freedom to leave if one wishes
  - Flexibility in allowing participation by (and rewarding) people with widely differing goals and objectives
- In short, it's a system that allocates the work to be done for maximum effectiveness/efficiency, and compensates accordingly, creating a motivation for achievement that is flexible for participants with different goals and objectives



# Warning Signs of a Pyramid Scheme

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- **Payment for “mere recruitment”**
- Unduly high, non-refundable registration fee
- Requirement to purchase large initial inventory amounts
- No provision to return unsold inventory when quitting, and no clawback of upline’s commissions earned when downline quits
- Little evidence of product investment
- Little evidence of company infrastructure and investment supporting a legitimate MLM’s channel functions



# What About Personal Consumption?

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- MLM distributors commonly (and unsurprisingly) consume the products they sell
- Such consumption is end-user consumption just like consumption by a non-distributor end-user
  - It's voluntary (because no requirement to purchase, inventory-load, or consume, and satisfaction guarantee)
  - It's end-user consumption by a true end-user
  - Some distributors join because they love the products and consume enough to make joining financially attractive, even without retail selling or business-building; their consumption is true end-user consumption after they join, just as it was before they joined



# Herbalife is a Legitimate MLM Company

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## **HALLMARKS OF A LEGITIMATE MLM COMPANY**

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***Compensation Based on Retail  
Sales, Not Mere Recruitment***

***Low Enrollment Fees***

***Scientific Investments In Product  
Design, Consistency, and Reliability  
Promote Product Sellability***

***Buy-Back Policy***

***Discouragement of  
Inventory Loading***

***Consumption by  
Non-Distributor End-Users***

## **HOW HERBALIFE MEASURES UP**

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- ✓ All compensation is directly linked to product sales
- ✓ Herbalife's Mini IBP costs \$57.75 in the U.S., well below the median cost of a start-up kit
- ✓ Significant scientific investments combined with robust sales growth signals sellable products
- ✓ Herbalife buys back product from a resigning Distributor who is left with unsold inventory
- ✓ The buy-back policy is accompanied by a claw-back provision that takes away the incentive for an upline to urge downlines to inventory-load; Herbalife explicitly discourages inventory-loading
- ✓ While not a true test of legitimacy, Herbalife has significant non-Distributor consumption, both at home and in Nutrition Clubs





**HERBALIFE**

# Conclusion

# Debunking Pershing Square's Pyramid Scheme Misrepresentations

## **Misrepresentation:**

**1** *Not a Product Company*

**2** *Minimal Product Consumption*

**3** *Business Model is Not Compliant*

**4** *Pop and Drop is Governing Growth*

**5** *Deceptive Financials*

## **Fact:**

**High Quality Products Meeting Consumer Needs**

**Millions of Consumers In and Out of Network**

**Legitimate and Compliant Company**

**Volume and Revenue Driven by Mature Markets**

**Financial Integrity and Transparency**





**HERBALIFE**

**Q&A**

# Herbalife Today



***Nutrition for a better life.***

- Global Nutrition Company
- Founded in 1980
- LTM Net Sales of \$3.9 billion as of 09/30/12
- LTM EBITDA of \$709 million as of 09/30/12
- Strong Balance Sheet
- Returned approximately \$1.9 billion of capital to shareholders since 2007
- Over 6,000 employees worldwide
- Independent MLM Distributor network with operations in 88 countries
- High quality products to pursue an active, healthy lifestyle
  - Weight management, including the #1 meal replacement shake<sup>1</sup>
  - Vitamins & nutritional supplements
  - Sports & fitness nutrition
  - Skin and haircare products

1. Euromonitor International: data for global meal replacement category (as of 12/26/12)

