FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Brett Chapman
Herbalife Ltd. - General Counsel

Michael O. Johnson
Herbalife Ltd. - CEO

Greg Probert
Herbalife Ltd. - President, COO

Rich Goudis
Herbalife Ltd. - CFO

CONFERENCE CALL PARTICIPANTS

Michael Lasser
Lehman Brothers - Analyst

Mike Jacobs
Avondale Partners - Analyst

Scott VanWinkle
Canaccord Adams - Analyst

Rommel Dionisio
Wedbush Morgan - Analyst

Javier Escalante
Morgan Stanley - Analyst

Andy Speller
A.G. Edwards - Analyst

Chris Ferrara
Merrill Lynch - Analyst

PRESENTATION

Operator

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

Brett Chapman - *Herbalife Ltd. - General Counsel*

Good morning. Before we begin, as a reminder, (technical difficulty) this conference call comments may be made with some forward-looking statements. (technical difficulty) all risk and uncertainty. As you know, actual results may differ materially from (technical difficulty) anticipated. We encourage you to refer to today's earnings release and our SEC filings for a complete discussion of risks associated with these forward-looking statements and our business.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements which are prepared in accordance with U.S. generally accepted accounting principles, referred to by the SEC as non-GAAP financial measures. We believe that these non-GAAP financial measures assist management and investors in evaluating and comparing period-to-period results of operations that are more meaningful in a consistent manner. Please refer to the Investor Relations section of our website, Herbalife.com, to find the first-quarter press release containing a reconciliation of these measures.

I will now turn it over to Michael.

Michael O. Johnson - *Herbalife Ltd. - CEO*

Good morning everyone, and thanks for joining our conference call. As usual, I am going to start with a brief overview of our first quarter of 2007 and our accomplishments, some of which of course we shared with you on our February 27th call and our press release yesterday. Then, Greg will give you an update on our regional business trends, specifically recent developments in the U.S., Mexico, Brazil and China. Rich will follow with a financial update and our revised 2007 guidance.

In January, we announced 2006 was really another remarkable and record-setting year for our Company. Our distributors accomplished their goal of exceeding 3 billion in retail sales, which is really a fantastic accomplishment and a wonderful new record for our Company. I'm pleased to say that this momentum has carried over from 2006, which has possibly attributed to another record performance. As a matter-of-fact, we set four records this quarter. I would love to tell you records.

It's the first quarter in which we exceeded 500 million in net sales. It is our 10th straight quarter of sequential sales growth, our 13th straight quarter of double-digit sales growth and our 21st consecutive quarter of year-over-year positive net sales growth.

In addition, we expanded our first-quarter operating margins 20 basis points. And we benefited by the continuing improvement of our effective tax rate overall, improving EPS 27% compared to the first quarter 2006.

Many of our distributors and employees are on this call. So let me take a moment to say thank you and congratulations. And if you're in the call center, please it's the end of the month. We've got a lot of calls coming in, so listen briefly and get those sales calls made.

In the product area, which we're very proud of, we're continuing to develop our science-based nutritional supplement to support our mission, which is to provide the best nutrition and weight management products in the world.

We have also fostered growth of our business by aligning our products with our distributors' daily methods of operations. In July, we will be launching two great new products in the U.S. First, a revamped and upgraded children's line, consisting of a protein shake and two delivery forms of multivitamins. This children's line will be a fantastic opportunity for our distributors to expand their customer base and improve their recruiting. This will be a significant step forward for us in the children's arena.

The second one is a great hydration product for everyone. It works especially well for healthy, active lifestyles. This is another great opportunity for our distributors to recruit new distributors and expand our opportunity to trainers, fitness advisors and everyone who needs water -- water taken to the next level. You will hear more about that in July.

What we have also coming forward is tools to align our products with our distributors' DMOs. Over the past years, we focused on strengthening our business opportunity; improving recruiting, retailing and retention and supporting successful DMOs, such as the Customer Clubs, Total Plan, wellness evaluation and Internet product sampling.

We have also increased investment in promotions, events and business tools that help our distributors grow their businesses. During the first quarter, we put on over 40 major events where the Company was able to recognize our distributors for their personal achievements. And at these major events, over 55,000 distributors took the opportunity to learn business practices and be inspired and motivated by our most successful distributors.

In addition, there were Company and distributor-sponsored events and thousands of smaller meetings around the world, such as our Herbalife opportunity meetings and our sales training seminars. The highlight event for the quarter was our President's Summit in March, which included our 2006 Mark Hughes Bonus Award. I think many of you were in attendance as 3500 Herbalife independent distributors gathered here in Hollywood, and we distributed over $30 million in year-end bonuses to our top achievers.

This payout represents the largest pool ever in this Company's history. 5 of the bonuses were over $1 million with the top [owners] of $1.8 million, five checks over $1 million. That is inspiration and motivation.

We continue to focus our branding activities on associating Herbalife with a healthy, active lifestyle. During the quarter in our European, African -- EMEA, as we say, our European, Middle East and Africa region, we announced a three-year sponsorship agreement with the Finnish Ice Hockey Association and the sponsorship of seven triathletes.

In the U.S., we continue to sponsor the AVP Pro Beach Volleyball Tour including Olympic bronze medalist, Elaine Youngs. And we added volleyball legend, Karch Kiraly, to our roster of sponsored athletes this year.

And on a bigger scale, we announced a five-year, multi-million dollar expansion of our agreement with AEG that makes Herbalife the presenting sponsor of the Los Angeles Galaxy Soccer Team. As part of this agreement, our Herbalife logo and name would be displayed broadly in front of all Galaxy jerseys and all Galaxy team wear. We're very excited the jersey's being worn by a great team. That team includes one of the most recognizable and most newsworthy sports figures in the world, soccer star, David Beckham.

By August 1st, our Herbalife name will have been seen by more people around the globe than ever before, creating increased brand awareness and raising our image through this positive association. We told our distributors that lifting our brand was one of our key missions inside Herbalife. By August 1st, there won't be a human being on this earth who has any type of media -- any type of media connection that will not know the name Herbalife. Now our distributors have the challenge of maximizing that exposure.

As you can see, we had a very exciting quarter. During the first quarter, the U.S. regained the number one country position, reflecting the strong leadership of several of our top distributors and expanding upon their successful DMOs. We focus significant management and distributor energy to fully understand, evaluate and implement improvements for our Mexican business. You will hear more about that from Greg in a minute.

We received our first direct selling license in China for the cities of Nanjing and Suzhou and in the Jiangsu province. Let me give you a couple more highlights here. More than half of our markets had year-over-year growth in the first quarter of 2007. 4 of our top 10 markets reported record revenue. We believe this is one of our competitive strengths, the fact that we operate across a broad geographic portfolio of 64 markets. El Salvador, which we opened in February, is now our 64th market.

Our distributors recruited and trained more than 44,000 new supervisors in the first quarter of 2007, approximately 500 per day. This is a 6% increase over the same period in 2006. And during 2007, our supervisor requalification, which is our overall retention rate for supervisors, increased 100 basis points compared to 2006 to 42.5%. And 20 of our markets had record retention years.

Recently, our Board of Directors approved a 300 million share repurchase program, reflecting the Board's belief that our stock is currently undervalued. Additionally, the Board created a quarterly cash dividend program and declared a $0.20 per share dividend available -- payable May 15th to record holders as of April 30th. Both of these programs reflect our strong operating performance and balance sheet, along with our expectation for the ongoing generation of significant free cash flow.

These are really exciting times in our Company. We just wrapped up another record-setting quarter, breaking through the 500 million net sales barrier to post our highest quarterly net sales in our 27-year history. It's hard to imagine that just five quarters ago, we celebrated as we passed through the $400 million mark. As I've said many times before in this Company, we're just getting started.

Global mega trends, such as obesity and rising healthcare costs, have created compelling growth opportunities for us. We believe in our 27-year history of changing people's lives with high-quality nutrition and weight management products, we're positioned better than ever to capitalize on these trends.

We have a lot of wonderful things going on in our Company, along with a highly-energized and an unified distributor organization. They have trust and confidence in our product and in our business opportunity. They're certain about Herbalife. Certainty creates confidence and confidence creates momentum. We have incredible amount of momentum coming out of this quarter, and we believe this is a foundation for continued success in 2007.

Now let me turn it over to Greg, my business partner, to provide you with an updated trend in our key markets.

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

I also want to join Michael in congratulating our distributors and our employees on another remarkable quarter. Let's jump right into an update on our regional business trends. In the interest of time, I will just touch upon recent developments in four of our key markets -- Mexico, the United States, Brazil and China. Then, we will field your questions on other markets, if necessary, during the Q&A session.

In January and February, we outlined the major factors that we believed contributed to the slowdown in Mexico during the last few months of 2006 -- infrastructure, training and compliance. Over the past four months, both corporate and local management along with our distributor leadership have been working jointly to address these issues and improve the overall operations in Mexico.

While we had better-than-expected performance in Mexico in the first quarter increasing 12% on a year-over-year volume basis, we face more challenging comps in the next few quarters. And therefore, we do not expect to maintain this growth rate.

Now let me discuss more specifically what actions we have been taking in Mexico beginning with infrastructure. Over the past five months, we have opened nine new sales centers and have expanded three existing facilities. In December, we opened sales center in Hermosillo, Monterrey, and Villahermosa. In January, we opened a center in Chihuahua and relocated and expanded our locations in Lyon and Tijuana. In March, we opened centers in [Tuckapeck] and expanded and relocated our Mexico City/[Kansas] location. In April, we opened additional centers in Juahaca, Puebla and Veracruz. In May, we will add a fourth sales center in Mexico City.

We now have Herbalife sale centers within close proximity to roughly two-thirds of the Mexican population, and that is up more than double what we had last fall. Additionally, because 85% of our distributors use cash when paying for their purchases, we have formed a partnership with HSBC Bank to double the number of locations where our distributors can pay for their orders.

We've also developed strategies to improve distributor training and compliance. We have conducted more than 3000 Nutrition Club audits and seen a steady increase in the rate of compliance. This improvement in compliance is attributable to improved training along with our enforcement actions that are gaining traction in the marketplace. We are encouraged by these results which demonstrate to us the majority of the distributors want to be compliant. Over the next several months, we are committed to getting a high level of audit activity in order to ensure that a high standard of ethical behavior is maintained.

In order to further address these issues, we've also developed a comprehensive training plan with our Mexican distributor leadership to reduce club turnover and raise the confidence of legitimate distributors. We have increased training sessions to our TAB team retreat held in Mexico City this past February, which was attended by more than 1300 of our top distributorships. Each TAB team member who attended the training session received a certificate acknowledging their attendance at the event.

They signed a code of honor, whereby they committed to retraining their Downline Clubs, actively monitoring compliance with the Company's rules and informing the Company of non-compliant clubs. Consistent with this code of honor signed by our distributor leaders, we expect the majority of distributor retraining and inspection visits will be completed by the end of this quarter.

We have also increased our investment in building Mexico's ethical business practice group, essentially adding more feet on the street, along with a new executive to lead this group. We anticipate the total cost of these infrastructure training compliance initiatives will come in at the higher end of the 1.5 to $2 million range we provided you on our last earnings call. This investment consists of approximately $500,000 in OpEx and $1.5 million in CapEx.

Although we have had a positive start to the year, we expect sales growth rates to be choppy over the next several months as distributors focus much of their efforts on bringing their existing clubs into compliance. As our training initiatives take hold, we anticipate renewed growth driven by new club openings and distributor productivity gains in the later half of 2007. Therefore, we reiterate our expectations for a flat volume year in Mexico for 2007.

Now moving on to the U.S. market, we finish up 25% in the first quarter on a volume basis, which represents a third sequential quarter where volume growth in the U.S. has exceeded 24%. As a result of the strong performance during the first quarter, the United States became our number one market.

Sales in our top 25 metro areas increased 33% compared to 2006. The Spanish-speaking segment of our U.S. business, which accounts for approximately half of our volume, grew by 50% compared to last year. The expansion of Nutrition Clubs continues to fuel growth among our Latino distributors along with the appeal of a compelling business opportunity that transcends both language and educational barriers. Our long-term success within the Spanish-speaking segment will be predicated on training new Nutrition Club operators on the Company's history, our products, policies, procedures and ethics.

We're working closely with our distributor leadership to develop training plans and are increasing [EVP] oversight, which we believe will foster the proper development and expansion of Nutrition Club DMO in the United States. In our non-Latino U.S. distributor segment, which was up 8% in the quarter, the traditional business along with the wellness advisor in Internet system DMOs contributed to our business success. As Michael mentioned earlier in July, we plan to launch our expanded children's line and a new hydration product in the U.S., which we believe will present new retailing and recruiting opportunities for our distributors.

Now let me turn to Brazil. As we have mentioned in the past few investor calls, since mid 2006, Brazil's growth has been slowing. We believe there were three major factors that contributed to the slowdown -- one, distributor leadership working outside of Brazil; two, conversion to the Customer Club model; and three, slower recruiting in our traditional business.

Now let me address each of these in greater detail. Our business in Brazil slowed as key distributors focused on expanding their businesses in other high-growth markets, notably in Argentina, Portugal and newly-opened Peru. This situation is analogous to Taiwan, where we experienced a downturn when Taiwan leadership helped open Malaysia in the first quarter of 2006. When leadership returned to Taiwan in late 2006, the country resumed double-digit top-line growth.

Currently, our action plan is to work with leadership to refocus their efforts on restoring growth in Brazil with a series of meetings including an additional extravaganza in February focused on balancing the three r's, a press team retreat next week, monthly conference calls to Pres Team, and Millionaire's Retreat in the second quarter.

The second key factor affecting Brazil's slowdown is the adoption of the Customer Club Mile. In Brazil, these clubs will most likely take the form of Central Clubs versus the In-Home Clubs usually found in Mexico. In order to assist our distributors' transition to this DMO, we will establish community distributor leadership to share best practices, implement a club manual incorporating new rules and procedures, provide improved tools for club expansion and launch new products that better support unique requirements in Brazil.

The third issue in Brazil centers around the need to achieve better balance in the three r's. Historically, Brazil's growth has been heavily dependent upon recruiting. Over the past three months, we've seen a dramatic decline in new supervisor recruitment. It was down 19% in Q1 versus prior year. As the Customer Clubs take root, we need to assist the traditional and Total Plan DMOs to focus on recruiting, while also providing tools to emphasize improved retailing and retention.

Our action plan here includes returning excitement to the market with a Nutritional Advisory Board city tour, a Chairman's Club tour, a repromotion of the Active World team and vacation promotions. We also recently launched a new product category that's more focused on consumers. And we will launch a lower-priced [adder care] line to help the Total Plan later this year. We believe through the execution of this plan, we will be able to stabilize the downward trend within the next two quarters.

And finally, our China business was up 163% to $11.6 million in the first quarter compared to last year. In late March, we received a license to conduct direct selling in two cities, Nanjing and Suzhou, both in Jiangsu Province. In the short-term, we're working to transition our business in those cities from a retail model to a direct selling model as well as establish small service centers in numerous districts. We will continue to aggressively pursue our direct selling licenses in other cities and provinces.

We will continue to execute our strategy to build out our physical presence in numerous cities and provinces, expand our product line and work with local distributor leaderships to build a strong, sustainable business. As an example of this effort, during the quarter, I had a chance to visit China twice, once on a three city doctor's tour where Herbalife doctors spent time providing product education for over 3500 Chinese distributors.

And later in the quarter, Michael and I visited three cities in China, where we met with over 5000 distributors in Chingdao, [Dao Jung] City and Nanjing. At the end of March, we had 42 stores and 20 service centers opened across 31 provinces.

Given the strong performance in the first quarter coupled with the direct selling license, our outlook for 2007 is continued sequential sales growth throughout the remainder of the year and top-line growth in the range of 50 to 75%. By the end of the year, we expect to operate approximately 100 stores in 33 provinces.

As we have said many times in the past, China is a fantastic long-term opportunity for our Company. However for us, the China store is more about 2008 and beyond.

That concludes my review of our business trends. As Michael mentioned earlier, we're experiencing great success across many of our 64 markets, most of which had record growth in their first-quarter results. Our distributors have done an outstanding job committing themselves to our business, our mission for nutrition and sharing best practice ideas across geographic borders. We believe all of these factors have been key contributors to our success and will be for the foreseeable future.

Now let me turn it over to Rich for our financial update.

Rich Goudis - *Herbalife Ltd. - CFO*

Let me briefly walk you through the financial results that were contained in yesterday's press release and also contained in our 10-Q filed yesterday afternoon. And then, we will open up the call for your questions.

Net sales of $508.1 million in the first quarter were up 11.5% versus the first quarter 2006, reflecting continued strong volume in most of our markets and supervisor growth of 21%. We benefited from a weakening dollar as FX added 200 basis points of favorable impacts throughout the quarter.

Gross profit in the first quarter was 400.8 million or 78.9% of sales, down 110 basis points compared to 80% in the first quarter of last year. The decrease from prior year was primarily the result of a changing country mix 40 basis points, foreign currency fluctuations 30 basis points and higher costs associated with freight and exercised taxes 30 basis points. While we expect these first two items to carry forward into the next few quarters, given our current business trends and the weak U.S. dollar, we anticipate cost savings from numerous initiatives to offset the higher freight duties we experienced in the first quarter.

Royalty expense for the first quarter of 180.3 million or 35.5% of sales improved 80 basis points compared to 36.3% in the first quarter last year. The improvement over prior year was primarily due to the impact of China royalties, which are partially contained in SG&A due to the employee model we used in China coupled with lower expenses related to our Active World Team promotion. When normalizing for the China royalties, royalty expense would've have been 36.3% this year versus 36.6% last year.

On a reported basis, SG&A was $149.4 million. As a percent of sales, we experienced an improvement of 22 basis points, which is 29.4% of sales during the quarter. However, excluding the $1.5 million in employee-related costs associated with our realignment for growth initiative, our SG&A margins actually improved 52 basis points to 29.1% of sales. This leverage primarily result of better-than-expected top-line growth, labor savings as a result of a realignment for growth initiative, coupled with an overall focus on managing expense growth.

Partially offsetting this improvement was higher FX expenses and stock option expense. Again, normalizing for China royalties and SG&A, SG&A as a percent of sales improved 100 basis points to 28.3% compared to 2006. This SG&A leverage is where you really see the benefit of a realignment for growth initiative.

On an as-reported basis, first-quarter operating income was $71.1 million or 14% of sales. However, excluding the 1.5 million of realignment costs I just mentioned, operating income as a percent of sales improved 30 basis points to 14.3% of sales. First-quarter interest expense decreased $3.8 million to $2.2 million versus '06. The decline was primarily attributable to a lower average net debt balance of $254 million last year, down to 180 this year and 153 basis point lower weighted average interest rate during the quarter 6.83% versus 8.3% last year. The lower rate reflects the benefits of the recap we did in August of last year.

On an as-reported basis, our first-quarter effective tax rate was 40.3%. However, excluding the $3.6 million in discrete tax expense items, the first-quarter effective rate was 35.1%. This rate reflects an improvement of 460 basis points compared to the normalized 39.7% in the first quarter last year. As we have previously communicated, we expect our effective tax rate to improve a point or more annually throughout 2008 reflecting the benefit of our tax strategies.

Net sales -- net income on a reported basis was $41.2 million in the quarter compared to $38.7 million in the first quarter of last year. Excluding certain items for both 2007 and 2006 as indicated in our press release last night, net income was 45.7 million in the first quarter this year compared to 35.0 million in 2006, an increase of 30.6%.

On an as-reported basis, first-quarter diluted earnings per share was $0.55 versus $0.53 in 2006. However, excluding certain items just mentioned and absorbing the impact of higher diluted share base, first-quarter diluted earnings per share actually increased 28.1% to $0.61. So in summary for the P&L, our first-quarter net sales were up 11.5% and our adjusted EPS growth rate was 28.1%.

Now turning to the balance sheet, we were net debt free 12.7 million at the end of March with 162.2 million in cash and 149.5 million in debt. During the first quarter, we prepaid 29.5 million towards our senior credit facility. Inventory balances declined 15.9 million, reflective of the burn-off of inventory, which was primarily built up in the fourth quarter last year to help ease customs delays at year-end. From an efficiency standpoint, our days on-hand of inventory improved to 120 days, down 14 days from the fourth quarter last year. Our inventory turns also improved from 2.7 in the fourth quarter to 3.1. CapEx at 9.1 million in the quarter reflects the continued investment in our technology infrastructure, enhancements to our online distributor business tools and additional investments in China and Mexico.

And finally, let me reiterate our second-quarter full-year guidance. Due to the strong performance in the first quarter coupled with our positive outlook for the balance of the year, we expect second-quarter EPS to be in the range of $0.58 and $0.62 and full year 2007 EPS to be between $2.49 and $2.56. We also are increasing our top-line guidance to 7 to 10% for both the second quarter and full year as we now expect the U.S. business to exceed 20% growth for all of 2007. We believe Mexico will be flat to up slightly, reflecting the tremendous efforts of our distributors to improve their business. Please note that these estimates exclude expenses expected to be incurred related to our realignment for growth initiatives and the tax adjustments made in the first quarter related to our review and adoption of FIN 48. Our guidance also excludes the potential accretion or dilution related to the $300 million share repurchase program recently approved by our Board.

That concludes the recap for our first-quarter financials. Let me quickly turn it back over to Michael before we open up for Q&A.

Michael O. Johnson - *Herbalife Ltd. - CEO*

Greg, Rich nice job. Nice job by our distributors and our employees. Just before we open up the call to your questions, I want to reiterate my strong belief and our strong belief regarding the strength of our business.

As you know, during the quarter, the Board received an unsolicited offer to purchase all of the Company's shares from J.H. Whitney. Therefore, as part of good process, the Board set up an independent special committee that was responsible for evaluating the offer. After their evaluation which included working with independent advisers, the special committee rejected Whitney's offers.

During the entire process, we stressed to our distributors and employees that it was business as usual for all of us. Our management team continued its focus on improving our operating results and building long-term shareholder value. However, we do collectively believe that our business is frankly often misunderstood by Wall Street and our Company is undervalued by almost any metric I see used by the sell-side research analysts.

Our Board took active steps a few weeks ago that reflect their understanding of our business fundamentals and their positive outlook for our future. We believe that the authorization of the $300 million share repurchase and the implementation of a quarterly cash dividend policy should be viewed as a very bullish signal. We came out of the entire process with the Board, the management and distributors all unified and focused on the future.

We have a very highly-motivated and unified distributor organization. Greg and I along with our management team worked to create certainty for our distributors. As I said earlier, we believe that certainty creates confidence among our distributors and that distributor confidence creates momentum in our business. All of those have never been better. We continue to be very excited about our future. We stand ready for your questions. Fire away.

Brett Chapman - *Herbalife Ltd. - General Counsel*

Kevin, you can open up for questions now. Thank you.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Michael Lasser, Lehman Brothers.

Michael Lasser - *Lehman Brothers - Analyst*

Nice start to the year. Michael, in your commentary about deploying cash back to shareholders, perhaps you can talk about your philosophy for how you will execute your share repurchase program. Is it the type of thing where you will be in the market consistently or may look to have -- spit on some firepower should there be a momentary dip (technical difficulty)?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I would love to answer that question. Poker is poker, and you don't want to show your cards too early. So we're going to be opportunistic and we will play it out as the opportunities present themselves.

Michael Lasser - *Lehman Brothers - Analyst*

And then talking more about the China situation, what is your understanding of how the license may be expanded? Is it the type of things where once it demonstrates success in the geographies that you have an approval for, it will be expanded? And do you have a sense of the timing for that?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I am going to let Greg handle that one.

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

I think a simple answer is we do not know right now. If you look at some of the other companies that got their license last year, getting additional licenses has been somewhat slower than expected. So we will continue to build out our retail model in those provinces where we have not received a license. I think we've been very successful with that model. As we do get our license in additional cities and provinces, we will convert over to our direct selling model.

Michael Lasser - *Lehman Brothers - Analyst*

Then lastly on the product portfolio front, have you thought about moving more into cosmetics perhaps? That's been a success in the direct selling area. And how do you plan to effectively compete in areas that you are at a higher price point than some of the other competitors out there perhaps in the personal care products area?

Michael O. Johnson - *Herbalife Ltd. - CEO*

We're continuing to look at the opportunity in what we would call nutritional skin care rather than cosmetics. Cosmetics is more about color. We believe that bringing nutrition to skin care is a very opportunistic area for our Company and especially fits well into our overall theme of our mission for nutrition on a global basis.

We already have a very advanced skin care line where we put vitamins A, C and E in the Neurofusion line. We call it Ace for Your Face. It is what we want to bring to our cosmetic -- or not really cosmetic to our skin care or outer nutrition as we call it, which is leading-edge science to it.

We're looking around the world at opportunities in marketplaces to look at those pricing scenarios for our abilities to bring products into those markets and benefit our distributors and of course our shareholders. So yes, we have some ideas. And no, I'm not going to give them all to you.

Michael Lasser - *Lehman Brothers - Analyst*

I appreciate you taking my questions. Keep up the good work.

Operator

Doug Lane, Avondale Partners.

Mike Jacobs - *Avondale Partners - Analyst*

This is Mike Jacobs in for Doug Lane. I saw where Germany and the Netherlands appeared to have slowed. What is exactly your strategy there in Germany and the Netherlands?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I think it is pretty much what we have been doing over the past few quarters, is really focusing on a good balance of both recruiting and retention and retailing the product. In Netherlands, we were a little encouraged at how Q1 was our first growth quarter in two years sequentially. So I think we're starting to see a little bit of a stabilizing force in the market there.

Germany, I think we have some branding issues to deal with. And we are dealing with those and we are working on some branding initiatives. I won't go into detail now to give them away. But I think you'll see some of that over the next couple of quarters.

So again, it is part of running a portfolio of 64 countries. They don't always perform at high growth in every quarter. But we're very focused on those markets. And Wynne Roberts, who runs EMEA for us, is very focused on those two markets. I think bottom story is the distributor leadership is engaged and working very closely with us. And we're hopeful that we can turn those around sometime in the near future.

Operator

Scott VanWinkle, Canaccord Adams.

Scott VanWinkle - *Canaccord Adams - Analyst*

Also great start to the year. First for Rich a financial question. Rich, what's going to happen a year or two from now when China direct selling is a much more significant piece of total revenue? What happens to the royalty overrides at that point? I know you've talked about what they were this quarter excluding China.

Rich Goudis - *Herbalife Ltd. - CFO*

Scott, we'll just continue to normalize as we just did on this call to make sure that we're looking at apples to apples with royalties.

Scott VanWinkle - *Canaccord Adams - Analyst*

But today in China, most of the sales I assume are happening in the stores, where -- I am wondering is what happens to the royalty expense when you start seeing sales on the street.

Rich Goudis - *Herbalife Ltd. - CFO*

Let me just clarify, all our sales are happening in the stores right now before we convert to a direct selling license. And the second part of your question, can you repeat that again?

Scott VanWinkle - *Canaccord Adams - Analyst*

Is it different in China the royalty expense once you have sales that are happening out on the street in direct selling?

Rich Goudis - *Herbalife Ltd. - CFO*

We don't expect that to change as we're using the employee model. That is what really driving the cost into SG&A versus up on the royalty line.

Scott VanWinkle - *Canaccord Adams - Analyst*

When we were talking about Brazil, there was a comment about Centralized Clubs versus at home. Does this mean that more than one distributor is involved in a club or can you just explain a little?

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

This is a concept that we see springing up in Central America and also in the United States. It is a concept where several distributors will run a club together. Instead of being in someone's home, it is in more of a retail-type rented location. And the distributors will keep the clubs open actually all day as opposed to generally in the morning in Mexico. Multiple distributorships will run the club. They will each take part responsibility for whether it is making shakes or running the training or whatever.

And they have proven very successful, not only for the customer but also recruiting new distributors who will then go off and open their own clubs. So this is something we've seen emerged over the -- probably the past couple of quarters. And we think it's probably the right model for Brazil. And our leadership are moving down the road of that type of model in Brazil as opposed to the in-home clubs.

Scott VanWinkle - *Canaccord Adams - Analyst*

I guess the last question is probably for Michael. On the sponsorship side, I certainly support getting the brand out there to everyone you can. My question is, how do you measure success and how far can it go?

Michael O. Johnson - *Herbalife Ltd. - CEO*

There's two ways to measure. One is by lead generation. And at all of the events that we are sponsoring, we have the opportunity for distributors to do what we call the three hours -- to recruit people, to retail the products and actually sample and use it as a retention mechanism.

For the tour of California, I was there at the end of it. One distributor had over 1000 leads generated at that event alone. That is success measurement in its most -- or should I say the impact is right there, right in front. You see something like that and the word spread among the distributor community that this is the opportunity in order to get leads and lead generation, which is the most -- really one of the most important parts of building an organization. That becomes a word-of-mouth phenomenon. They become more involved in these.

We have distributors who are doing their own events now who are setting up. But they don't need the corporate sponsorship to do it. We had a distributor last month in Charleston, South Carolina who went to a marathon there. She set up her own tent, did her own marketing and got over 800 leads in two days. That is a very significant achievement. So that is one way of measuring it.

The other way of measuring it is obviously by the number of hits we're getting on our website and other websites throughout the world and by the distributor's support of this activity and this tactic. At first, I think people were a little hesitant in seeing us take the brands and explode it like this. Now our distributors are wholeheartedly behind it. They see the opportunity. They understand this is a way to significantly build presence, soften the market for them and the ability for them to come in on the heels of one of these opportunities.

The reality is when Beckham hits the pitch on July 17th, there isn't going to be a magazine in the world that has anything to do with sports, women lifestyle, anything like that where he isn't going to be seen with an Herbalife jersey on his chest. So this is a real opportunity for our distributors to take the challenge that we've given them, which is to activate their business to make it more accessible to anybody who wants to become involved in the business opportunity or in the consumption or the retailing of our products. So the measurements are in lead generation and they're in awareness.

Operator

Rommel Dionisio, Wedbush Morgan.

Rommel Dionisio - *Wedbush Morgan - Analyst*

Just a clarifying question. I think in your prepared comments, Rich, you talked about the gross margin impact coming -- 40 basis points from negative country mix. I was just a little confused by that, just given the U.S. was up 23%. Is that because a lot of the incremental U.S. sales are coming from weight management and the shakes from the Nutrition Clubs? Can you just go into a lot more detail on that, please?

Rich Goudis - *Herbalife Ltd. - CFO*

No, it has more to do with -- if you think about the growth we've had in both the U.S. and Mexico recently compared to as a percentage of overall Company sales compared to Europe. Europe, we get a better volume point to net sales conversion, which we see that benefit in gross profit. When the U.S. and Mexico, they have a -- let's say a less favorable conversion from volume point to net sales. So that is where the country mix we're talking about.

Rommel Dionisio - *Wedbush Morgan - Analyst*

That makes sense. Thanks a lot.

Operator

Javier Escalante, Morgan Stanley.

Michael O. Johnson - *Herbalife Ltd. - CEO*

We have been waiting for you.

Javier Escalante - *Morgan Stanley - Analyst*

Thank you. I have a couple of questions on Mexico and China, right? Basically if you can let -- help us understand on your infrastructure building, you mentioned how many distribution centers you have open. How many are left? Is all what you're going to open these nine distribution centers, or is there going to be more for the balance of the year?

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

No, we're not opening anymore for the year. We think that's enough. As I said, it gets us in close proximity to about two-thirds of the population of Mexico. And what we really want to do is focus on building -- working with our distributors, help them build their businesses in those centers and see the impact those sales centers have on the business and then develop a plan for '08, whether we'll open additional centers in '08. So I think we have more than enough to do to grow those centers. We just doubled the addressable population in Mexico.

Javier Escalante - *Morgan Stanley - Analyst*

Greg, in those places where you now have distribution centers, do you have the capability to kind of like discern whether the volume trends vis-a-vis the places where you do not have them, have you seen any improvement as you open up these distribution centers (multiple speakers)?

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

It's too early to tell, but we will track that in terms of what the impact is on the business. And if you remember when we had a lot of the sales coming out of Guadalajara/Mexico City that were being shipped by distributors back to the other sales centers, there's a little bit of a cannibalization effect there. What you really want to do is see the market stabilize and look at some of the cities like Monterrey or Villahermosa and measure that impact. Historically, we have seen a discernible improvement in the growth of the business by opening sale centers like in Lyon or Tijuana.

Javier Escalante - *Morgan Stanley - Analyst*

I think back in January, you guys mentioned that you guys have a first assessment at about 10% of the distributors are now compliant. And in talking to distributors a couple of weeks ago, it seems like it is still kind of like it's an area that about 10% of the Nutrition Clubs may not be as viable. Is that consistent with what you're seeing that basically because of the concentration in Mexico City and with Guadalajara probably you may lose 10% of the Nutrition Clubs in this year?

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

I think that number is a little high. What we said before and we're seeing is the compliance -- because they're in compliance upon the first visit, has actually improved. That would make sense because of the training we're doing, the training the TAB team is doing and the compliance.

So the first visit compliance is increasing and we're very happy about that. Then I think upon second visit and working with distributors, we're seeing about the same compliance rate. And once we suspend the distributor, if you remember, we said some of those distributors will become compliant once they are suspended. And then, we end up with probably around 5% of the business that just doesn't seem like it is going to become compliant.

I think that is fairly consistent with what we've said over the past couple of quarters that we think there's probably 5% of the business that will go away. Now, a lot of that has already gone away. So I think you've seen that impact in going from our height of the business. Last July and August, we were doing 60 million volume points. And a lot of that loss from 60 down to the 50 was due to the 5% of the clubs going away.

Javier Escalante - *Morgan Stanley - Analyst*

But is it not your sense that some of the issues at the root of the compliance issue -- I know training is a huge part of it. But also maybe that some of these Nutrition Clubs are too close together and they need to spread out a little bit and that is why you're opening up these distribution centers (multiple speakers).

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

I don't think that's an issue. But certainly a lot of our growth we believe is going to come from areas outside of Mexico City and Guadalajara. But we do believe there is still growth in those cities, as evidenced by the fact we're going to open up a fourth sales center in Mexico City this month. So again, we think we're still not fully penetrating those cities. But again, I think if we took our penetration for Mexico City and Guadalajara and rolled it out to the rest of the country, what that shows is significant headroom for growth.

Javier Escalante - *Morgan Stanley - Analyst*

But let me ask you then the question more precisely then. My understanding is that a lot of it has to do with Mexico City. Are trends in Mexico City itself improving? Or there is still negative?

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

No, I would say they are improving.

Javier Escalante - *Morgan Stanley - Analyst*

They are. But it's still negative but they are coming back a bit.

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

Right. What you're saying as I said in prepared remarks, I think right now, we're going through a phase where our distributor leadership is stabilizing their business. They're training their down lines to become compliant and they're not opening as many new clubs as they did historically.

Javier Escalante - *Morgan Stanley - Analyst*

(multiple speakers) China quickly, okay? Can you tell us -- a couple of very basic questions in China, right? How many distributors did you guys have?

Secondly, if you can explain very simply the difference in compensation between your normal -- I mean we know there is this retail infrastructure that you need to have and they operate as service centers. But can kind of like could you really explain to us how these distributors are being compensated in China? I know they're part of the payroll, but could you elaborate a little bit better about the compensation of the Chinese distributors so then number of distributors, the compensation as you can explain it.

Then you upped the forecast from 25 to 50 to 75% in China this year. What is the assumption there? What exactly -- I know you just said that the timing of licensees outside the two territories you were granted is uncertain. So I would imagine that the up in the forecast is just direct sales in these two provinces, but I just want to confirm that.

Rich Goudis - *Herbalife Ltd. - CFO*

Sure. Let me take the first couple and I will leave the last one to Greg. The first one, the number of supervisors, we have approximately 10,000 supervisors. If you look at our K, we had about 7000 just a quarto ago, so we have a good progress in supervisor growth. In the K, we delineated between our standard employees and the China distributors that we categorize as employees.

For competitive reasons, I don't want to disclose our compensation program other than to say that we are abiding by all local regulations. We have a very competitive marketing plan for our distributors.

And as far as growth, I think we initially indicated for the year that we would grow about 25% in China excluding the license. We are very positive on the outlook for China now that we received the license for these two fairly large cities, about 14 million people in these two cities early up in the year where we can actually start to convert those cities and start to see some acceleration towards the back half of the year. I think those were the real, key questions you had, correct?

Javier Escalante - *Morgan Stanley - Analyst*

Yes, it is. But basically so then just -- is the assumption that something equivalent to the 35% royalty fee now is going to be bulging the SG&A because now these people are employees? Is that the way to think about it?

Rich Goudis - *Herbalife Ltd. - CFO*

Yes, yes. But again because of the global nature of our plan and I wouldn't say overall from an operating margin standpoint it will have any different effect. I think it is just geography on our P&L for GAAP purposes.

Javier Escalante - *Morgan Stanley - Analyst*

No, I understand that. I am just more interested in how much of payback is going to be given to the distributors and [justra] says how attractive the income opportunity will be for them. I understand that it is just moving from that one line to the other. I just want to see whether the pool of money of the traditional Herbalife business would be available to the Chinese distributors. But I guess it is going to show in a different line item.

Rich Goudis - *Herbalife Ltd. - CFO*

Obviously, there's a limit in the payout. Again, we're compliant with all local regulations. And other than that, we'd rather stay somewhat quiet on our compensation plan as it is a competitive advantage for us.

Operator

Andy Speller, A.G. Edwards.

Andy Speller - *A.G. Edwards - Analyst*

My goal for you around the branding initiative, you guys have done a lot to expand what you have. Can you just talk about as you look out over the next year or two what things you might change, where you might go? Should we expect to see more things like you just announced at AEG, or do you think it will be more on a smaller scale? It looks to me like you're going larger than smaller.

Michael O. Johnson - *Herbalife Ltd. - CEO*

You're not going to see any big announcements like the AEG. That is a huge deal for us. It is a big one for the Company. We made a strategic decision in the last year as we got ready for this is that we wanted to turn to more to the local activities over to the distributors. AEG is a global partner for us. We will be doing things on a global basis with them for a lot of things.

We have quite an arrangement with them. We are their largest tenant here in L.A. starting in 2008. And we will core their L.A. lives with Herbalife. And that is a branding initiative as much as it is a corporate office initiative because we will be right in the heart of the core of the largest construction site going on in the world right now. Somebody said that the other day.

What we're going to do is really entice our distributors to take over the brand on a local basis -- is to continue to push out. So you will see more materials created and generated by us on a local basis, opportunities for them to take the brand and localize it to the marketplace. I would love to see kids running around with soccer jerseys with Herbalife Galaxy on them. I would love to see it in baseball teams. We would like to see it in badminton in Asia. We would like to see it globally in every sport where parents get involved with their kids have Herbalife right out there in front.

We're also doing a lot with our brand in terms of community service in our social side of our Company. We have 25 Casa -- 27 -- I get corrected here quickly correctly Casa Herbalifes which is where we get involved with nutrition programs in homes for kids at risk. Our distributors become involved in that on a daily basis.

These are -- while they work very well from a social standpoint, they're also a great branding standpoint for us. It gets our brand and our distributors out in the community. We have sponsorships now in over 30 markets globally, everything from the -- as you heard the Finnish ice hockey team and you can -- some of the most famous hockey players who play this game -- Kiprusoff, who is a great goalie, and Teemu Selanne, who is a fabulous hockey player here for the Anaheim Ducks. That's an unsolicited pitch for my Ducks who are doing very well in the playoffs right now.

So you're going to see continuing improvement in the branding and the quality of our brands throughout. But it's mostly going to be pushed down towards distributor activity on a local basis.

Andy Speller - *A.G. Edwards - Analyst*

Would that imply then the cost of the branding initiative would be less on a go-forward basis?

Michael O. Johnson - *Herbalife Ltd. - CEO*

We will provide materials for them. We're not going to do big, huge event-type marketing like we are right now. Like I said, it was a big, big, big decision for us, a lot of discussion internally to look at the things we're doing on a local basis and supporting at the Company level we're going to turn over to distributors and take those funds and push them more up towards a global relationship with someone like the Galaxy. And hopefully, you will see Galaxy jerseys with Herbalife on them in marketplaces all over the world.

When we made this decision, we investigated it very carefully, what Beckham means and what the sales of jerseys are and teams to [be slate for] like Manchester United and Real Madrid and the impact on viewing. We already have people watching the Galaxy all over the world via the Internet.

Herbalife distributors who are having parties in Chile and bringing teams of people in to watch and see that Herbalife jersey on there. We were a great partner for the Galaxy and they're a great partner for us. Because we are going to expand their fan base on a global basis and they're going to expand their reach with a star like Beckham.

So with that said, we made that investment. We're very excited about it. We're going to maximize it and activate it on a local basis and then continue to activate this brand through distributors. And like I said, that distributor in Charleston, South Carolina which he did on our own initiative, went out there and set up a tent with Herbalife product out there and sampled Liftoff to people. It was a great opportunity to show herself the opportunity of getting out into the local market but other distributors as well.

When we get on stage, we show these things. We show distributors in the Philippines who had supported a triathlon down there, did it on their own volition. Each year, this woman will come back and support this triathlon now because she's getting leads. It's a great way to build community for her distributors and expand our brand. Sorry; I am blathering on here. But I'm excited about what these guys are doing.

Rich Goudis - *Herbalife Ltd. - CFO*

You'd think of it as a percent of sales, our distributor facing expenses. We want to have that vary with our growth rate. So as a percent of sales, assume that cut would be flat. But it may change from branding to promotions or some other marketing things. I think Greg wants the flexibility to stimulate the particular marketplaces.

Andy Speller - *A.G. Edwards - Analyst*

Then, Michael, if I could just talk about the Board dynamic given what has happened here in the last quarter or so with the unsolicited offer. Can you just talk to how the Board is with Mr. Castleman with the offer in being Chairman and all? Can you just address any issues that put investors maybe at -- fears maybe at bay that you might have a dysfunctional board or something like that?

Michael O. Johnson - *Herbalife Ltd. - CEO*

We just had a board meeting. We had an annual meeting and a board meeting last Thursday. And it was frankly the best Board meeting that I think we have had in the history of the Company. Because the benefit of a process like this is that we have -- our independent members of the Board are more tuned into this Company than they ever have been. They've spent months understanding this Company much better than ever before.

We have wanted to get a board retreat together to really introduce the Company and how our distributors operate. This special committee is now more tuned into this Company than they have been in the past. The issues flowed much more simply in the meeting because of the depth of knowledge that they have.

Peter is a tremendous supporter of this Company and of our distributors and has been undeniable in his desire to see this Company succeed and see shareholder value increase. When Peter put his bid in for this Company, our stock was trading at 33. What has come out of the other side of this is the stock trading near 40, a dividend and a share repurchase. Those are all great benefits for our distributors, so I have to hand it to Peter for creating incredible shareholder value through this process.

He saw a $33 stock and said this just does not reflect the value of this Company. He made a try. His try was taken by the Board and rejected, which is fair. Peter is a business man. He does not carry personal issues about this. Now he's carrying the stock; it's got a 4 in front of it instead of a 33. So I think he's got to be feeling better about our stock price. I think we all are. I think our Board is more unified than ever before. And I am feeling confident as we go into the future.

Brett Chapman - *Herbalife Ltd. - General Counsel*

Ken, why don't we take one more question?

Operator

Chris Ferrara, Merrill Lynch.

Chris Ferrara - *Merrill Lynch - Analyst*

I will go back to Mexico. Sorry to belabor this. But the doubling of the addressable population, can you just talk a little bit about that second half that you will be addressing now? What are the dynamics of that part of the population? Are they tougher to get to? Are they easier to get to? Are they the same? How did clubs pick up historically when they began in Mexico City? What kind of dynamics are you seeing early on in the new places where you guys are popping up where maybe no one has even seen this concept before?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I think it is probably -- in short statement, it is probably the same addressable population that we saw in Mexico City and Guadalajara. So I think the model will work the same as it did in those two cities. It is not that we do not have businesses in those cities. Monterrey has -- I think we do several million volume points a month in that city. It is just it's underpenetrated considering it is the third-largest city in Mexico.

So again, we're going after the lower socio-economic (technical difficulty) with these clubs. I think those exist throughout Mexico. So again, I think we're just opening up access points for that demographic to the products and that there is an opportunity in the Company.

Chris Ferrara - *Merrill Lynch - Analyst*

So you think that second portion of your the addressable population can get to the growth rates as they ramp up that you saw from the portion of Mexico you started from the start a couple years ago?

Michael O. Johnson - *Herbalife Ltd. - CEO*

I think ultimately we could see that Chris. If you remember though, we have always talked about how long it took for the Nutrition Clubs to ramp up. It's exponential. So you're probably talking 18 to 24 months out into the future till you see maybe the explicit exponential growth. So right now, we just want to make sure that we plant the seeds correctly.

If you really look at what we're doing now, is really retraining and working with our distributors to retrain. Because what we want is those clubs, when they go out and proliferate and open new clubs, we want them to make sure they're all compliant. They are all properly trained on the mission of the Company, on the products of the Company. And therefore when they go out and replicate, we don't -- replicate good practices as opposed to bad practices.

Chris Ferrara - *Merrill Lynch - Analyst*

Just on supervisor growth in general. I guess the Mexico and Central American region held on pretty well in supervisor growth relative to where sales went. Can you talk a little bit about that and what is driving that dynamic?

Rich Goudis - *Herbalife Ltd. - CFO*

You're talking about new supervisors or just total supervisors?

Chris Ferrara - *Merrill Lynch - Analyst*

Total supervisors.

Rich Goudis - *Herbalife Ltd. - CFO*

Total supervisors for Central America was up 57%. I see that more like a balance sheet. These a lot of people. There was a high level of attention, primarily in Mexico, with one of our highest retention levels is 55%. Mexico had 64, almost 65,000 supervisors in this quarter versus 41,000 a year ago. So there's 23,000 more distributors, 56% more driving the business. But that is a great thing.

Chris Ferrara - *Merrill Lynch - Analyst*

No, I get that. I am just trying to understand why that number would've held on so well, given where sales have gone. Obviously productivity is down a little bit, but you're not seeing people drop out of the businesses. Is that the right way to characterize (multiple speakers)?

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

They're not so much dropping out of the business other than I think what we talked about in response to Javier's question about there's maybe 4, 5% of the business that are leaving. What we're seeing is really the slowdown is more attributable to not opening up new stores. And that is on purpose. Our distributors want to retranche and retrain and then go back through a period of accelerated growth.

So I think what you will see is retention will probably actually go up as we go through this phase. And then, we want to get back to active recruiting which is another word for opening new Nutrition Clubs.

Brett Chapman - *Herbalife Ltd. - General Counsel*

Kevin, why don't we just hand it over to Michael at this point for his closing comments?

Michael O. Johnson - *Herbalife Ltd. - CEO*

Yes, thank you everyone for being on the call. It really is a pleasure to speak with you and hear your questions, especially you, Javier, we love the way you go deep and in depth with us. That's truthful. I want to thank our distributors and employees for their efforts in creating really a spectacular year, a record year for us. I am proud of our distributors because they are the ones who are leading in us hitting this milestone that Mark Hughes dreamed of, 3 billion in retail sales. This is a great achievement and we've really believed that there is so much more ahead of us.

Momentum with our distributor organization has never been greater. Nutritional habits around the world are frankly troubled. Healthcare costs are skyrocketing and recognition is increasing that overall well-being is predicated on a balance between pop (technical difficulty) weight management and a healthy, active lifestyle. Just think of -- just in America alone if we can bring a better balance nutritional face to them and more people with a proper weight on their frames.

Just think of what would happen to our healthcare program. I don't hear anybody talk about that in any presidential campaigns. They just talk about spending more money, rather than getting people in a proper healthy active lifestyle with good nutrition. Herbalife can solve that. We have got a strong belief in that.

And on top of that, our population is aging. And it is beginning to enter in retirement. We're seeing many of our top markets, large companies are downsizing, creating a tremendous, underemployed population. All of these are very positive trends, unfortunately negative in society but positive for our Company and the future of our business. Our distributors are attracted by compelling business opportunity, and they are supported by our high-quality science-based products.

We're helping people all over the world with our vision for nutrition and helping them achieve their nutritional and financial goals. We will continue to invest behind them so they can become ever so much more successful. Thank you for your interest and your support in Herbalife.

Operator

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