

HERBALIFE INTERNATIONAL OF AMERICA, INC.

**Moderator: Amy Greene
November 4, 2014
10:00 .a m. ET**

Operator: Good morning and thank you for joining the third quarter 2014 earnings conference call for Herbalife Limited. On the call today is Michael Johnson, the Company's Chairman and CEO; the Company's President, Des Walsh; John DeSimone, the Company's CFO; and Amy Greene, the Company Senior Vice President, Government Corporate and Investor Relations.

I would now like to turn the call over to Amy Greene to read the company's Safe Harbor language.

Amy Greene: Good morning. Before we begin, as a reminder, during this conference call comments may be made that include some forward-looking statements. These statements involve risks and uncertainties, and as you know actual results may differ materially from those discussed or anticipated.

We encourage you to refer to yesterday's earnings release and our SEC filings for

A complete discussion of risks associated with 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 prepared in accordance with U.S. generally accepted accounting principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures.

We believe these non-GAAP financial measures assist management and investors in evaluating and preparing period to period results of operations in a more meaningful and consistent manner. Please refer to the Investor Relations section of our website, Herbalife.com, to find our press release for this quarter which contains a reconciliation of these measures. Additionally, when management makes reference to volume during this conference call they are referring to volume points.

I will now turn the call over to Michael.

Michael Johnson: Good morning and welcome to our third quarter 2014 earnings call.

Before we talk about the past quarter, let me provide some content. Herbalife Global is becoming the world's leading nutrition company is grounded in the strength of our proven results. A 34-year track record helping members and their customers achieve their nutritional goals through the use of our high quality products in a personalized support from our members.

We operate in a business environment that offers huge long-term possibilities. Government and societies around the world continue to contend with the financial and human impact of climbing obesity rates, aging populations, and the post 2008 economic reality. There is no doubt that Herbalife is part of that solution. We are a Company that has a positive impact on public health coupled with a personal economy opportunity. In short, we are at the intersection of two of the most pressing global macro trends confronting our world today.

Euro Monitor and McKenzie both estimate that the global health and wellness industry is on pace to a trillion dollar industry by 2017 and is expected to grow by about 7 percent a year for the next several years as consumers become increasingly mindful about the quality of their diet and lifestyle. There is a seismic shift taking place which is evident when you look at what is going on in certain food and beverage categories. And we are well positioned to capitalize on this shift through our portfolio of nutrition products and our pathway to the market.

Herbalife is a story of sustainable growth, a story of exciting untapped potential and of last year opportunity. For the third quarter, we reported a 4 percent increase in net sales compared to the prior year on flat volume and our adjusted EPS is up 3 percent to \$1.45 per share. Excluding the impact of Venezuela, net sales and volume saw solid increases growing 7 percent and 3 percent respectfully. And two thirds of our market reported volume growth.

That being said, while the third quarter represented a record level of net sales, our performance was below expectations. This performance is clearly out of character for us. There is a confluence of factors, some external and some internal, that had an impact on our results. The main factors were Venezuela, FX and the short-term effect of structural changes that we are making to our business. And this morning we will address each of these in more detail.

Externally, Venezuela and currency in general had a significant impact in the quarter, yet we are not quite unique as we have seen. Ongoing currency restrictions in Venezuela as well as the sharp movement in the dollar have had a material impact on many companies this quarter. In fact, without Venezuela, we would have seen net sales go up 7 percent. So obviously, quite an impact.

We have talked previously about how we are actively managing the business in Venezuela to best Navigate the challenging economic of the marketplace. We have taken proactive steps to manage sales such as introducing new pricing and establishing order limits. Both of which have affected our anticipated volume as we look for ways to transition our cost structure to Bolivars. We've had success in this area.

Having just agreed to a five-year contract with a local manufacturer for our liquid Allo line, we are confident that we will be able to move manufacturing of key products to local sources by the end of 2015.

Now let's discuss the internal factors that impacted our third quarter and will likely to continue to have an impact on Q4 and into 2015. As I have said before, all companies evolve and this is what is happening at Herbalife. We

are making changes to the business model that will not only improve our way of doing business but also improve our results.

This period of transition for the Company is an important chapter in our history and one that will make us stronger. Some of these changes however, take time to be digested and implemented by our members. And as a result, this has affected our performance for the short term yet we manage for the long term and we firmly believe that the changes we are making are all the right ones for the healthy growth of our Company and it gives us tremendous confidence for our future.

Over the past five years, we've been implementing enhancements to our business in a controlled way, often testing concepts in different markets. And the results all show significant improvement in the quality of growth after they have been implemented. One trend that we see clearly is that people who join the business in a more gradual, controlled way who take the time to get to know the products and carefully build a customer base are far more successful and therefore more likely to remain as a member.

This has informed a number of the enhancements that we've introduced including the 5K qualification and the first order limits that have been so successful in Russia, China and parts of EMEA. These changes which have been improved member productivity, activity, and retention now serve as a growth engine in these regions and we are accelerating the implementation of these enhancements globally.

These enhancements are proven to create stronger long-term growth but in the short term they inevitably moderate growth. Yet this is an important stage in our evolution as a Company and one that will guide us to even greater future success for the years to come. Des will go into more detail about the enhancements but at a high level, they include first, standardizing the sales leader qualifications of 4,000 volume points over any 12 month period; secondly, having all members qualifying for sales leader ordering from the Company; third, limiting the size of new members first orders with the Company.

Our history of managing business transformation is strong. Russia illustrates the impact and timeline of one such enhancement. In Russia before we tested the change in our marketing plan that allowed people to qualify over a 12 month period by accumulating 5,000 volume points, the retention rate of first time sales leader was under 50 percent. New sales leader activity in the first three months in the first year were also under 50 percent.

Fast forward to today, and the business in Russia has experienced tremendous improvement across all the key performance metrics. More than three quarters of our members qualify as a sales leader over three to 12 months and we retain approximately three quarters of the first time sales leader. Additionally, new sales leader activity in the first month and year jumped to over 90 percent on substantially higher volumes.

This demonstrates how transformative these enhancements have been in driving a more consistent and substantial business. As another example, the resurgence in growth that we were experiencing in predigital flat markets across Europe is directly attributable to these actions and we are excited about the potential impact on other markets.

As we take this and other initiatives and implement them globally, we believe we are on a similar path that will build on the power of our business and make Herbalife even stronger than it is today. We believe that the result will be a business model that enables us to create, cultivate, and maintain both life long members and customers. We expect the global rollout of these enhancements and the transition of our business in Venezuela to moderate growth in the near term.

In our fourth quarter and full year 2015 guidance reflects these factors, yet we anticipate that these enhancements to our business coupled with the ongoing usage of daily consumption and healthy active lifestyle business methods will position us to return to a more normalized growth rate in the near future.

It is really important to emphasize that during this single digit growth environment we will continue to be a very efficient generator of cash. Our priorities for deploying that cash remain as previously stated to pay down

debt, invest for growth and returning capital to shareholders. And we continually evaluate our capital structure options to ensure we are maximizing value for all of our shareholders.

We understand that there is a need to update and better promote positioning of our business opportunities. One of our short term goals is to improve an increase branding of our business opportunity or standards of practice for our opportunity are industry leading. Our gold standard, our member training, our compliance functions, our disclosures regarding the income opportunity and new member protections have begin before the new entrant ever signs up, speaks to the rigor we apply to all levels of participation by our members.

Our member leaders are actively engaged in the training and mentoring of new members using business methods that reach and retain more customers at any time in Herbalife history. It is our confidence in these elements that make it imperative that we position the Herbalife business opportunity to better reflect who we are and our position in today's marketplace.

In addition to the enhancement that we are implementing to our business, we remain focused on the core strategies that have served us so well. Daily consumption is engrained in everything we do and it continues to evolve to attract new customer segments and supporting existing customers so that they can enjoy the very best Herbalife experience.

As well as the tools and the support that we provide, we also continue to invest in product access to reinforce this daily consumption model. We have introduced mobile tools and automated sales centers. We have developed third-party relationships with bricks and mortar distribution networks and we have expanded our distribution network to enable members to more easily order, pay, and obtain products closer to where they live and work in a way that suits them.

Supporting all of this is our vertical supply strategy for what we call See Defeat, which ensures that Herbalife products are of the highest quality. We have invested significantly in Herbalife innovation and manufacturing. Today roughly 40 percent of our products are self-manufactured and we expect to

grow to 65 percent by the end of 2016 with the addition of our Winston Salem facility in North Carolina and the expansion of our manufacturing capabilities in China.

As we move forward, we also plan to invest in better packaging and promoting our weight loss and targeted nutrition product lines coupled with doctors and scientists and science behind the product. The understanding of personal nutrition is growing and we are researching platforms that will allow Herbalife members and customers to better understand the nutrition needs. We are building alliances for ingredient opportunities, diagnostics, and clinical study platforms that build a better business and nutrition opportunity for our members.

At the local level, we will continue to promote and develop a very personal business opportunity built in a social and community setting, but time and time again research has shown works better for weight management than any nonsocial program. This is where our members are key. They supply that personal link to customers through a platform that is disruptive to the typical retail channel as our model brings not just a product, but mentoring, personalization and socialization to the consumer. The social element helps drive the result and we believe that our unique path to the market is the future of product retailing.

Raising the awareness at the same time as maintaining the integrity of our brand is another important pillar that contributes to our growth and success. Our Herbalife 24 Force nutrition and Herbalife skin product lines given us a better blueprint for branding our weight management and nutritionalizes well as our business opportunity.

We have incredible people and passion behind these lines who are attracting new members and customers and creating new business methods that are driving membership and retention, reaching out to new customers in communities and expanding our business well beyond our core weight management products. Our confidence stems from the growth and sustainability we have experienced in the first markets that grasp and

implemented the 5K qualification, coupled with core models built around healthy, active lifestyle.

These new methods have brought in new members that have been successful in creating business models that produce sustainable results and are generating highest retention rates in our 35-year history. We believe that these programs can drive growth in additional markets as they are understood, adapted, and adopted.

One good example is the three-day trial pack that came from Europe and is just now being introduced into the U.S.A. market. We are excited about this opportunity. Des will discuss in more detail in a just a few minutes.

We continue to invest in our people and the quality of our management team reflects an extremely bright future for our Company. the most recent addition of Allan Hoffman as Executive Vice President of Global Corporate Affairs; Mark Freeman, Executive Vice President and General Counsel, and Pamela Jones Harbor as our Senior Vice President, Global Member Compliance and Privacy are stellar additions to the team and it is a great validation of our Company that we can attract such wonderful talent.

We are at a single point on a much larger journey to becoming a stronger, more profitable Company for decades to come. It may mean a near and short term slowdown in our historical growth rate but we are committed to ensuring that everything that we do is about having the right foundation to support our bright future. We have a clear vision and that is to be the number one nutrition company in the world and global team that is committed to our goal and confident in the knowledge that our strategy for business transformation and growth is proven. And we have a group of members whose enthusiasm, passion and confidence in the future of their Company has never been greater.

Now let me hand it over to Des for a far more detailed update on our performance in our key regions.

Des Walsh: Thank you, Michael. Two thirds of our countries posted volume point growth while average active sales leaders with volume point increase increased in every region over last year's third quarter. The continued strength and

average active sales leaders exemplifies the resilience and dedication of our business leaders to support their customers on their path towards their health and wellness goals.

As Michael mentioned, we have been implementing changes to our business for the past several years. Each of the changes was designed to further the foundation from which we will continue to grow. Let me provide some details now as to where we have implemented various changes and how the business in those markets has responded.

Our member leadership recently voted on several updates to the marketing plan that will go into effect globally between this month and early 2015. These changes include streamlining all methods for sales leader qualification at 4,000 volume points, an ongoing rollout of our first order limit to 91 countries from 18 countries today. Our EMEA region, particularly Russia, has proven to be an optimal place to test changes to our business. For example in late 2009, we rolled out worldwide the qualification for sales leader with 5,000 volume points over a 12 month period after having tested the change in Russia for approximately a year.

We implemented this globally because the results from Russia clearly showed that members who come into the business more gradually and who build a strong customer base as they work toward sales leader qualification are more productive and have a higher prequalification rate.

The evidence has only gotten stronger since 2009 with a direct correlation between the method of qualification and the likelihood of retaining the sales leader. Since implementing this change in Russia, volumes in that market have increased more than three fold and the retention rate of sales leaders has increased from 60 percent in 2009 to 75 percent in 2013.

The new 12 month 4,000 volume points qualification method that we launched this weekend was designed to simplify the qualification methods as the volume point requirement for sales leader is now the same whether the member qualifies over a period of one month or 12 months. We believe that this change will continue to drive adoption of the more gradual method. This

slower more methodical approach to building a business is the future for our Company and we are pleased to see its increased adoption around the world. From the evidence of past success, we are confident that this change will result in greater productivity and higher retention rates.

The other large-scale enhancement we will be rolling out soon is global implementation of first order limits which in many ways go hand in hand with the slower qualification for sales leader. Again the rationale is that encouraging slower growth to sales leader increases the likelihood that the new sales leader will be successful and retained.

By March 2015, first orders by new members in almost all markets will be limited to 1100 volume points. As the new member grows their customer base and sells through their product, their reorders will move them along the path to sales leader. As with most new initiatives of Herbalife, we test them in several markets and then make the decision on how to move forward.

Since mid 2012, we have introduced first order limits in 18 countries around the world and the results are exciting. In India we began a test of the first order program in March 2013 by limiting the size of the initial purchase, the new members were by design on the path to qualifying as sales leaders through the slower method and those sales leaders were 20 percent more productive. Similarly in Turkey, it was introduced in June 2012 and those that used the slower method were 55 percent more productive.

As we roll out this enhancement globally we are confident that we will see these positive shifts across all markets. Since we've been talking about Russia and Turkey, let me move right into talking about third quarter results for our EMEA region.

EMEA had another strong quarter with local currency net sales up 15 percent and volume points up 15 percent; each is compared to the third quarter in 2013. Average sales leaders with volume points was up 18 percent and new members grew by 15 percent over the prior year period. Members in this region continue to successfully develop and tailor versions of business methods such as fit clubs, weight loss challenges, and nutrition clubs that best

work in their individual markets. For example it was members in the EMEA region that originated the trial pack concept which we have just launched in the U.S.

We are encouraged by the consistent execution and success of localization of daily consumption business methods that we saw in both western and Eastern Europe throughout the quarter.

Looking at specific countries, we have already discussed several of the initiatives that we believe are helping to drive continued growth in Russia. So let me provide you with just a few additional numbers. In Russia, a market that has been open for 20 years, local currency net sales grew 21 percent, average active sales leaders increased 4 percent, each over the third quarter of 2013, and new members increased 68 percent over the third quarter in 2013.

Although the UK was flat in volume points in the third quarter due to the tough comp with prior year, over 80 percent of the 51 countries in the EMEA region had positive growth in volume points as the members and leadership in markets throughout the region have been more closely adopting daily consumption business methods.

Markets such as Spain, Germany, and France have all found success localizing and implementing their daily consumption business methods and consequently all experienced positive volume points growth in the quarter compared to prior year period. It is particularly significant to see markets like Germany and France coming out of extended periods of flat performance as a result of the enhancements we are implementing and the business methods they are adopting.

Moving to our North America region, our results specifically in the U.S. market remain softer than expected in the third quarter, however, the fundamentals behind the business remain very solid as demonstrated by the high degree of member engagement. Average active sales leaders increased 4 percent and 49 percent of this years new sales leaders qualified to the 5K method compared to 39 percent last year.

Although this transition may contribute to a temporary slowdown in the business, we know that it also contributes to stronger performance in the future. Also during the month of October between the Atlantic City extravaganza and the 13-leadership development began events we have trained over 19,000 members, a 20 percent increase over the prior year.

This week we launch the trial pack concept in the United States which include a three-day supply of Formula One shake and total control that is priced at \$11.95. This creates a compelling low entry cost opportunity for our members when they are speaking to perspective new customers. Like nutrition clubs which radically increased the addressable audience of customers that provide our products, trial packs remove a barrier to consumer adoption that we believe will lead to incremental volume as people experience the results of our products and move on to additional purchases.

The launch of the trial pack was very successful and more than exceeded our initial forecast. The momentum in growth behind the healthy active lifestyle segment of our business in the U.S. continues to be very strong and we believe it will continue to grow well into the future. We continue to believe that the U.S. as our oldest market is a top tier growth opportunity for us and that the modifications that we've been making to the business will position us to return to growth.

Now let's turn to Mexico where local currency net sales for the quarter increased 3.5 percent and volume points were flat, each as compared to the prior year period. For the third quarter average sales leaders with volume increased 4 percent compared to the prior year. New members declined 12 percent compared to the prior year period.

Mexico's volume in the quarter was impacted by the early stage implementation of some of the business enhancements that were previously mentioned. As members better understand the changes and implement them in their organizations we expect to see volume return to more normalized levels.

The fundamentals of the market and the engagement of our members remain strong as evidenced in the continued increase in average active sales leaders. We continue to support the market through the ongoing expansion in the number of product access points making access to products faster, easier and more local to the members will be a continued driver of growth in Mexico in the future.

Let's move on now to China which recorded excellent results. Local currency net sales increased 34 percent and volume points grew 24 percent in the third quarter, each as compared to the prior year period. Average active service providers increased 23 percent over the same period last year.

In August we conducted a remarkable test and eliminated the introduction or referral of new members or entrants into the business for a period of one month. This resulted in our new members in China declining 44 percent in the quarter compared to the prior year period but in August despite the elimination of new entrants the business in that month grew more than 20 percent.

This is a wonderful testament to the solid consumption based nature of our business in China. Meanwhile the preferred customer program in China continues to grow. We now have more than 350,000 registered preferred customers and are beginning to see a good number of those convert to service providers as they chose to build a business.

We continue to be excited about the prospects for growth in China. as we have always stated, the rules relating to direct selling are unique in China. We continue to be transparent with our operations there and remain comfortable with our structure and business model in the market.

Next the Asia Pacific region, after three consecutive quarters of year-over-year volume points decline in the second half of 2013 and Q1 of 2014, Asia Pacific returned to growth in the second quarter with volume points increasing 1 percent. In the third quarter we built off that momentum delivering further volume point growth of 3 percent as compared to the prior year period.

New members in the region declined 2 percent compared to the third quarter of last year. Throughout the Asia Pacific region we remain focused on driving sales leaders retention and we're pleased to see average active sales leaders with volume increase 5 percent compared to the prior year.

We have implemented first order limits in six of the 15 countries that comprise our Asia Pacific region. As with China, after experiencing a momentary slowdown we have seen these countries, particularly India, return to growth driven by a stronger base of members who came into the business in a more measured manner.

Asia Pacific volume continue to be impacted by Korea, a market that accounts for approximately one third of the region's volume and which experienced flat local currency net sales for the quarter as compared to the prior year period. We continue to focus on sales leader activity and retention in the country and are seeing an improvement in the utilization of the 5K 3 to 12 month sales leader qualification method which increased 22 percent in the quarter compared to the prior year period.

In India, local currency net sales increased 6 percent and average active sales leaders with volume increased 6 percent over the same quarter of the prior year. Sales leader activity continue to grow due to improved product access and the ongoing success of localization of nutrition clubs.

Furthermore, the first order limit that was introduced in March and was subsequently extended from a 10-day period to a 30-day period has been readily accepted by the country's leadership and is having a positive impact on the foundation of the business.

Turning now to the South and Central America region, local currency net sales in the third quarter decreased 1 percent on volume points decline of 17 percent each as compared to the prior year quarter. Active sales leaders with volume points in the region increased 7 percent and new members decreased 2 percent over last year's third quarter.

As we noted last quarter, the strict currency restrictions in Venezuela continue to make currency repatriations very difficult and impacted product supply in

the market. Excluding the impact from Venezuela, the region's volume would have decreased by 5 percent. In Brazil, local currency net sales decreased approximately 2 percent. Volume points decreased 6 percent and average active sales leaders grew 6 percent in the third quarter, each as compared to the same period last year. New members increased 38 percent in the third quarter.

As the business begins to recover from the distractions of the second quarter we are working closely with in country leadership to strengthen and expand our business. In closing let me thank all our members, sales leaders and service providers for another quarter in which we continue to improve the fundamentals of our business, a quarter in which two thirds of our markets produce volume points growth and a quarter in which despite the external noise, we welcomed over 500,000 new members to Herbalife with the fourth highest member in Herbalife history.

As Michael said, our members are committed to their mission of building Herbalife in the world's leading nutrition company driven by a collective determination to improve the lives of our customers and contribute to raising the standard of public health around the world. By providing support, education, and access to affordable, excellent nutrition, our members empower consumers on a daily basis to truly achieve a healthy, active life.

John DeSimone: Thank you, Des. First I will review the Company's third quarter and 2014 reported and adjusted results. Then I will provide updated information on fourth quarter and full year 2014 guidance as well as initial full year 2015 guidance.

Adjusted EPS for the quarter of \$1.45 was \$0.04 higher than the adjusted third quarter result of last year and \$0.04 below the low end of our guidance. The comparison to last year was negatively impacted by \$0.27 and is comprised of a negative \$0.14 impact from currency and a negative \$0.13 impact for the effective tax rate.

As of September 30, 2014, the Company changed the remeasuring rate for its business in Venezuela from a C-CAD1 rate to the C-CAD2 rate of 15 bolivars

to a dollar. This change resulted in a pretax charge of \$139.5 million, \$122.1 million of which is recorded in SG&A, \$7.6 million is recorded in costs of goods sold, and \$9.8 million is other expense line below operating income.

The total EPS impact of these items was \$0.97 in the quarter. As of September 30, 2014, our cash balance in Venezuela at a rate of 50:1 is \$32.6 million. Additionally, the movement to a rate of 50:1 had a negative \$0.09 EPS impact in our fourth quarter guidance compared to our previous guidance.

At the C-CAD2 rate of 50:1 was applied to the first, second and third quarter of 2014, it would have reduced adjusted EPS by \$0.18 in Q1, \$0.14 in Q2, and \$0.13 in Q3. Our reported basis third quarter EPS of \$0.13 includes the following items we consider to be outside of normal operations of the Company and we believe will be useful to investors when analyzing period to period comparisons of our results: \$0.97 previously noted related to Venezuela devaluation, \$0.13 from a legal reserve accrual related to the Bostick case; \$0.12 from \$10.3 million of non cash interest costs associated with the outstanding convertible bond offerings; \$0.05 and \$0.03 respectively for expenses incurred in response to a tax on the Company's business model and expenses incurred related to the FTC inquiry; lastly our adjusted results excluding \$0.02 impact on the impairment of an unusable new asset at the Winston Salem manufacturing facility.

For the third quarter the Company reported net sales of \$1.3 billion representing an increase of 3.5 percent compared to the third quarter of 2013. Local currency net sales for the period increased 6.3 percent with an unfavorable FX impact of 2.8 percent compared to the same period last year. Excluding Venezuela, which is given as engineered decrease, total Company net sales was up 6.6 percent compared to last year's third quarter.

Since Des has already provided significant regional detail around our volume points net sales results, I will now turn to margins. Our reporting gross profit margins for the third quarter declined approximately 65 basis points versus the third quarter of 2013. Excluding the impact of the inventory write down related to the Venezuelan currency devaluation, our adjusted gross profit

margin for the third quarter was essentially flat compared to both the third quarter of 2013 and sequentially the second quarter of 2014.

SG&A, excluding the non-GAAP items previously noted, and China service provider costs, increased a 177 basis points as a percentage of sales compared to the third quarter a year ago, primarily due to the timing event expenses and increase in non income taxes. \$7 million of the SG&A year-over-year increase is related to the timing of events that occurred in the fourth quarter last year but occurred in the third quarter this year.

We will pick up that \$7 million timing benefit in our Q4 comparisons. Interest costs increased by \$15.1 million versus the third quarter of last year due to the convertible bond deal executed earlier this year, \$10.3 million of the \$15.1 million is non-cash and excluded from our adjusted results.

Moving on to our effective tax rate, our third quarter adjusted effective tax rate was approximately 600 basis points higher than our effective tax rate of Q3 of 2013 and approximately 90 basis points higher than the high end of our guidance. The increase versus the prior year was due primarily to the inability to fully utilize a tax benefit related to the increase cash interest expense and a decrease in net benefits from discreet events.

The increase compared to our guidance range was primarily due to changes in a geographic mix. As noted previously, the third quarter-adjusted earnings per share of \$1.45 was \$0.04 higher than our earnings per share for the same period 2013. Comparing third quarter adjusted EPS to the previous guidance provided in July, adjusted EPS of \$1.45 was \$0.04 lower than the low end of our guidance range.

EPS compared to guidance was negatively impacted by sales below our estimates and a higher effective tax rate partially offset through lower than expected expenses. Before moving on to new guidance for the third quarter 2014 and full year 2014 as well as 2015 provided in yesterday's release, I want to note a couple of items.

With respect to Venezuela, our guidance assumes a rate of 50 Bolivars to one dollar for the balance of this year and all of next year. Our guidance excludes

any ongoing expenses incurred responding to the attacks on the Company's business model and the FTC inquiry as well as the impact of non-cast costs associated with the Company's convertible notes.

For all currencies other than Venezuela, we have used the average closing exchange rates during the first two weeks of October consistent with our historical practice. I would like to turn to our guidance expectations.

In yesterday's release, for the first time we provided currency-adjusted projections in addition to the normal items we historically provide. Currency rates for Venezuela and the strength of the dollar in general has an impact in our guidance and we believe this table would be helpful for investors to use.

Moving on to the specifics, first with respect to Q4 and then for 2015, from a volume points perspective, we expect volume growth, excluding Venezuela, of flat to up 3 percent for the fourth quarter, including Venezuela, we expect volume to be flat to down 3 percent. Net sales for Q4 before the impact of currency, which is equivalent to local currency net sales, are expected to grow 1 percent to 4 percent. Our adjusted EPS guidance for the fourth quarter in the range of \$1.30 to \$1.40 per share.

This guidance range includes a unfavorable foreign currency impact of approximately \$0.31 per share compared to the prior year of which Venezuela constitutes \$0.22 and all other currencies combined represent the remaining \$0.09.

Full year 2014 volume points are expected to grow between 5 percent and 6 percent excluding Venezuela, but 2.7 percent to 3.5 percent including Venezuela. We know expect adjusted EPS for the year to be in the range of \$5.80 to \$5.90 per share. We are initiating full year 2015 adjusted EPS guidance in the range of \$5.45 to \$5.75 on volume flat to up 3 percent.

This EPS guidance range includes a currency headwind of approximately \$0.66 compared to 2014 including approximately \$0.45 from Venezuela. Adjusted for currency EPS would have been between \$6.10 and \$6.40.

Herbalife generates substantial free cash flow which we define as cash flow from operations less our capital expenditures. We expect to generate free cash of approximately \$470 million to \$500 million next year. Our free cash flow will be the second highest in the Company's history. Our gross debt is \$1.8 billion and excluding Venezuela, we have cash of \$646 million or net debt of approximately \$1.1 billion.

Our priorities for the use of cash remains the same, first to repay of debt obligations, second to support growth of the business, and third to accelerate returns to shareholders when possible. We believe our capital structure is conservatively levered and we will continue to investigate opportunities to best utilize our balance sheet to create long-term value for our shareholders.

The free cash flow estimate we provide for 2015 is basically equal to our projected net income next year, after expected capital expenditures of \$145 million to \$165 million which equal to approximately 3 percent of net sales. Implied EBITDA our next year's guidance is in excess of \$800 million. Our cash flow metrics remain strong and we will continue to deploy our cash in the means we believe best serve the long-term needs of the Company.

Thank you. This ends our prepared comments. We will now open up the call For your questions.

Operator: At this time if you would like to ask a question please press star then the Number one on your telephone keypad. Again, that's star one to ask a question. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Scott Van Winkle with Canaccord Annuity.

Scott Van Winkle:Hi, thanks. A few questions, first, on the compensation plan changes, you gave examples of particularly Russia and India where we saw improvements down the road after the changes. I'm wondering is there a way to quantify the impact in maybe the first six months, 12 months whatever the cycle time is to get through the change so we can think about what the impact might be in kind of near term volume and growth?

John DeSimone: Hi, Scott, this is John. I will take that. So the core of the changes that are being made is you know we have three pathways to sales leaders. To start with we had two. We had a one-month pathway and a two-month pathway. We introduced the 3 to 12 month pathway in 2009. We know that 3 to 12 month pathway; those people that come into that pathway are much more active and much more retained a year after they come in than anybody in the first two pathways.

So as this change takes place and we transit to this change you can think of the difference between one and two month pathway and 3 to 12 month pathway but that difference is anywhere between one and 10 months and that's the transition period. And that's kind of the transition period we see in some of these other markets as we fill that pipeline.

Scott Van Winkle: And that applies relative to overall volume that applies to a relatively small portion of volume is that you know one to two-month qualification, correct.

Des Walsh: Yes. It's about 9 percent of our volume this year, about 12 percent last year.

Scott Van Winkle: Great. Thanks. Then on China, Des, you're talking about China, you talked about the month test in August. I'm wondering what you know the catalyst Or the reason was behind giving that test.

Des Walsh: So a couple of things. Really what we want to do is put a stress test on the business that we've been telling you for several quarters about the transition to daily consumption and this is one way to verifying that and what we saw Scott, obviously was a tremendous outcome. We eliminated new entrants into the business and we still saw our business grow about 20 percent.

So absence validation of that our business in China is solidly based in consumers purchasing products every day.

Scott Van Winkle: Thanks and then the last one if I could, kind of a bigger picture question, you know there has been several periods you know over the last decade where Herbalife has gone through moderated growth you know I think late 2008 with the currency issues. Then we saw in, there has generally been kind of an aggressive response to cut costs. Is that a strategy that's on you know on the

table today you know more aggressive cost cutting to you know react to a moderate growth environment in the near term?

John DeSimone: Scott for the question. This is John. Certainly there is an environment to control costs while we go through this transition phase and we will maintain that environment until we have more visibility into growth but I do want to remind you that most of our costs, I shouldn't say most but still we have a high variable cost base and a low fixed cost base, so we are in a good position for a transition of this type.

Scott Van Winkle: Great. Thanks.

Operator: Your next question comes from the line of Michael Swartz with SunTrust.

John DeSimone: Hi, Mike.

(Mitch) : Good morning guys. This is actually Mitch in for Mike. Just with regard to the first roll out of implementations, do you believe that any markets would take a relatively longer period of time to adjust to these standards?

Des Walsh: So (Mitch) this is Des. (Mitch), it's tough to say. What we have seen is that in the markets where we've introduced it and now we have it in about 18 markets around the world, that it's really been a period that varies from probably three to six months on average.

Now obviously in certain markets because we preannounced it, this is something that's going to take on a worldwide basis and you know most markets first quarter of next year. We have certain markets already beginning to adjust to similar and train. So it's possible that the impact may be less but probably a little bit too early to tell at this stage.

Mitch : OK. That's helpful. And then looking to Asia Pacific, a good quarter-over-quarter acceleration in volume but clearly it remains the laggard. Could you just provide some more color on how the initiatives are progressing in that market?

Des Walsh: So you know we are always you know the key is are the companies working the distributor leadership. We have an outstanding distributor leadership, very experienced, very unified in Korea so we're working closely with them to address these issues. As you may know our retention rates in Korea were below the average on a worldwide basis so that's a key focus there.

We've working with local leadership also in relation to the transition of 5K and what we reported is that our 5K sales leaders is up 22 percent and so part of that transition is going to be the thing that's going to lead you know greater productivity, great directivity and ultimately greater retention. That's when we can see this market returning to growth.

Mitch: OK. Could that next year do you think?

Des Walsh: it could be. It could be but from our perspective these changes are the right changes (Mitch) because it's all about building a solid connection for future growth. We've seen that in other regions in the past where we've had these resets and we're seeing it now. So coupled with our very strong leadership there we're very confident about the future for Korea.

Mitch: OK. Thank you guys. Best of luck.

Des Walsh: Thank you.

Operator: Your next question comes from the line of Meredith Adler with Barclays.

Meredith Adler: Thanks for taking my question. I'd like to start with maybe just a flippant question; you talked about (inaudible). Exactly what do you mean by that? I was just wondering.

John DeSimone: So Meredith you were breaking up. I think what you asked was what is productivity mean. How do we measure productivity? So there are three metrics that we measure and discuss in this call.

So one is activity. One is productivity and the other is retention. So activity are the number of people ordering in a given period and we look at sales leader activity, average active sales leaders which is how many people on

average are ordering in a given month compared to a year ago. Now we know in all six regions and eight of our top ten markets more people are ordering this third quarter than last third quarter.

Productivity is how much have they ordered. And the productivity in the short term is what gets decreased with these changes. Because you're giving up the one and two month qualifiers, those first two pathways in exchange for those, that third extended pathway. So while you build, while you transition to that change you're going to see a decrease in productivity on average.

Then of course retention which we measure 13 to 23 months after somebody joins to see if they're still ordering product. So those are the three metrics that we look at. Productivity when Des mentions productivity by individual we know that people coming through that third pathway the 5K method are not only significantly more active 12 months after they've joined, 57 percent more active. They're also more productive than those that come in through the first two pathways.

Meredith Adler: Then I have a question about, I mean you said that you introduced the 5K in 2009. But it doesn't sound like it was mandatory because you're still having an impact by emphasizing and I think you shifted it before today but by emphasizing this new method. Can you just explain that? It was rolled out but ...

John DeSimone: Yes. Well it's was rolled out as an option so that the first two pathways are not taken away. We provided a third pathway. It's still now mandatory but the changes we're making systematically make it more likely of people coming in to that third pathway, right; by putting a first order limitation and giving people time to do the business before they become a sales leader. That will migrate more people to the 5K method.

Meredith Adler: Got it. OK. And then maybe just a sort of simplistic question but you mentioned impairing and assets at the new manufacturing facility, why would you impair an asset in a new facility?

John DeSimone: A great question. It was delivered defective. We're in a little battle the manufacturer. I think we recovered the cost of that asset but it's impaired

because it's not usable. And when we get the credit back from the manufacturer we will carve that out too.

Meredith Adler: OK. I'm ...

John DeSimone: (Inaudible) the facility has got over 350 employees today and it's definitely on track. Other than a little blip with that equipment.

Meredith Adler: OK. Then I'm going to ask a bigger picture question. your competitors that is other direct selling organizations, do they make it as hard for people to do business and do you have any concerns that the changes that you're making that should make you a bigger, better business long term are just going to turn people off and they're going to be attracted to other direct selling organizations.

John DeSimone: Actually quite the opposite. I think the changes we're making; they've all been tested by the way, right. Some of them have been tested through an evolutionary process. Some have been tested in individual countries but we know they work.

We know individually that they moderate growth in the short term and collectively they moderate growth in the short term but in the long term they make us a much stronger company and we actually expect the industry will follow the lead and ...

Michael Johnson: Well let me jump in, yes this is Michael. We're making our business much less risky. We are a risk free, you have an opportunity with Herbalife to return product for up to a year and I think that makes it easier to do business with us. You have an opportunity to understand everything single thing going in. Our gold standard is industry leading. Our opportunity for distributors is better understood today than it ever has been. Our membership is increasing because of it.

We have just tremendous package for people to join this company and as it gets better understood in the marketplace we're, people are going to understand it's easier to do business with this company than ever before.

Meredith Adler: OK. Thank you.

Operator: Once again to ask a question please press star one. Your next question comes from the line Tim Ramey with Pivotal Research.

John DeSimone: Hey Tim.

Tim Ramey: Good morning. So you see the pivot play Tuesday morning quarterback here but the new marketing initiatives you know all appear to have a impact of slowing growth or sales in the near term and yet obviously you were surprised versus your guidance number one, and you know it's not consistent necessarily with a wholistic view of those changes that you bought back as much stock as you did earlier in the year. How do you make us more comfortable with that kind of fact pattern that we bought back stock? We gave guidance and then we implemented these changes which are well thought out and logical but made the previous decision somewhat suspect.

John DeSimone: This is John. I will take that question and Des can jump in if he wants to add any points. So let's start with, I'm going to break into buckets because I think that's the right way to look at this question. So let's start with the changes that were made, these changes, as you know we are a contract with our member base and changes such as the ones we're talking about are required to go to vote.

So we went to vote in July on these changes and they were overwhelmingly voted in favor of these changes. But our implementation dates, I don't think that we completely understood the moderation that it would have in the short term, right. I certainly wish that I could go back to Q2 and pull that money back that we used to buy back stock and buy it today.

But in Q2 it was the right thing to do and I think in the long term it will proven it was the right thing to do because these changes do make us a better company and so our confidence in the future has never as strong as it is today. It's no less than it was three or six months ago but just circumstantially in the short term things are moderate.

Tim Ramey: OK. And if I could just follow up ...

John DeSimone: Let me also tell you, I bought back a lot of, I also bought a lot of stock in July, right. So clearly this is something that and I think a lot of other people on this side of the phone bought stock in July. So we have a lot of confidence and it's just a short-term issue that we will manage through.

Tim Ramey: Duly noted, yes. Des, could I ask or maybe it's not a question for Des, maybe but just the greater focus on compliance you know clearly had an impact in markets like Brazil and you know probably certainly the U.S. and again those are the right things to do, no doubt. But how do you think about that in terms of a you know cycling through the business. Are we a third of the way through that? Are we half of the way through that? So just kind of be a lingering effect for you know four quarters? How do we think about that?

Des Walsh: Yes. So Tim I don't know that I would necessarily focus one specific issue because I think what we're facing here you know goes back to your prior question is I just think we got an accumulation of different issues. And obviously as you know we've done (inaudible) a number of builder initiatives. We haven't had a build a better program for many years but recently we've accelerated that and partially in response to some of the outside noise.

So when you've got things like the (inaudible) to change and then you follow that with the simplified pricing, and then you follow that with you know a greater level of plans training and enforcement, and then you roll in these marketing plan changes, I think it's the accumulation of efforts that's just causing a temporary reset as we have, as our members out there just get use to the new situation and just a new game plan.

I know my colleagues here always get amused when I start using American football analogies but you know you've ...

Michael Johnson: As long as you don't say inning.

Des Walsh: Yes. But you've got a team that's use to you know a certain number of plays and they've had those plays for many years and then you bring along new plays. So it just takes time for people to assemble those. We've bombarded

our sales force which is hugely resilient, hugely entrepreneurial but we've found more of a lot of change. And I think we're just in that transition. But you know let me remind you again seven out of our top ten markets have growth in the third quarter. So yes, we have areas of weakness but overall I think we've got enough to celebrate.

Operator: there are no further questions at this time. I would now like to turn the conference back over to Michael Johnson for any closing comments.

Michael Johnson: Well I think want to thank you all for being on the call and remind you it is November 4th so get out and vote today please. We are in America and this is our right and our obligation. You know I listen to the call. I see what we're going through as a company. I see the response in the media and what takes place in Herbalife is that people are getting healthier every day. We're building a company of distributors, of members, customers who are taking the opportunity to improve their health, to improve their lifestyle, to improve their economic income. And we're well positioned to take advantage of these mega trends that are out there in the world, obesity, aging population, under employment and rising public healthcare costs.

We are a company built for today's market and built strongly for the future. We're going to remain prudent with our capital structure. We enjoy our business as it's incredibly profitable and generates huge cash flow. We're extremely confident as I said a minute ago in our future we will continue to work with all of our members to make and help them build a larger and more substantial business for many years to come.

It's pretty simple around here folks. We've got a great business. We're in a great marketplace and our distributors are confident and we're moving forward. So thank you very much for being on the call. We appreciate it. And we will talk to you next quarter.

Operator: This concludes today's conference. You may now disconnect.

END