

HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Alan Quan
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Operator: This is conference # 34074913

Operator: Good afternoon and thank you for joining the Second Quarter 2017 Earnings Conference Call for Herbalife Ltd.

On the call today is Rich Goudis, the company's CEO; Des Walsh, the company's President; John DeSimone, the company's CFO and Alan Quan, the company's Vice President of Investor Relations.

I would now like to turn the call over to Alan Quan to read the company's safe harbor language.

Alan Quan: Before we begin as a reminder, during this conference call, comments may be made that include some forward-looking statements. These statements involve risk and uncertainty -- and as you know -- actual results may differ materially from those discussed and anticipated.

We encourage you to refer to today's earnings press release and our SEC filings for a complete discussion of risks associated with these forward-looking statements in our business. We do not undertake any obligation to update or release any revisions to any forward-looking statements or to report any future events or circumstances or to reflect the occurrence of unanticipated events, except as required by law.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial

statements prepared in accordance with U.S. generally accepted accounting principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures. We believe that these non-GAAP financial measures assist management and investors in evaluating our performance and preparing period-to-period results of operations in a more meaningful and consistent manner, as discussed in greater detail in the supplemental schedules to our earnings release.

Please refer to the Investor Relations section of our Web Site, herbalife.com, for additional supplemental information and to find our press release for this quarter, which contains a reconciliation of these measures. Additionally, when management makes reference to volumes during this conference call, they are referring to volume points.

I'll now turn the call over to our CEO, Rich Goudis.

Richard Goudis: Good afternoon, everyone. In my first few months as CEO, I couldn't be more encouraged and confident about our future as a global nutrition company. I've had the opportunity to travel to some of our key markets recently to meet with our distributors, almost 55,000 in total in Thailand, India, Hong Kong and the U.S. as well as employees from around the world to share our purpose and vision for the future. Listening to the success stories of our distributors, seeing their enthusiasm and witnessing their passion and dedication for improving their communities and making the world healthier and happier are what motivates us and provides us with confidence in our future.

Before I share with you initiatives that are underway and we are really excited about, let's first review our second quarter results. While our bottom line performance was better than expected, our top line performance was lower than we're accustomed to delivering. Specifically, Q2 volume declined 8 percent as compared to the same period last year, largely due to our results in U.S., Mexico and China. While we anticipated the result in the U. S. and China, Mexico's volume finished lower than expected. John will give greater detail about this and other financial information later in the call.

While our volume trends are softer than expected, we have and will continue to have a keen focus on delivering the bottom line. As a result, reported and adjusted diluted EPS was \$1.61 and \$1.51 respectively. Net sales of \$1.1 billion represented a 5 percent decline on a reported basis and a 3 percent decline on a constant currency basis compared to this quarter last year. While we have had year-over-year currency headwinds versus prior quarters and years for quite some time, the impact is becoming less material to our business. And if the current rates hold, we could see a year-over-year currency benefit as early as the fourth quarter this year.

As we said for the past few quarters, 2017 is a year of transformation for our company. As those of you who have followed us for a while know, we have gone through similar transitions in recent years. And the short-term volume softness we experienced this past quarter is typical when our distributors shift their attention from building their businesses to a temporary acute focus on learning new tools and procedures and business techniques. We saw a similar situation in many markets as recently as late 2014 and early 2015 when we implemented enhancements to our worldwide marketing program.

During that implementation time period, we experienced a temporary decline in volume, which was then followed by accelerating growth rates and led to record volume in 2016. In fact, last year's second quarter was a record-high volume both worldwide and in the U.S., reflecting what is possible and what is expected when our distributors focus on growing their businesses. We want investors to know that during periods of transformation the behavior and order patterns of our distributors are less predictable, similar to what happened in late 2014.

During this current transformation period, we will continue to hold back or defer expenses not directly tied to driving revenue growth. With that said, we are confident in our plans to return to growth and expect sequential improvement in trends later this year. As you know for the past 12 months, our North American distributors and many of us inside the company, have focused on implementing changes in the U.S. required by the FTC order. Making sure we could perform under the order was our most important priority.

Since going live with the order in May, we have successfully demonstrated our ability to operate under newly established rules. And that success provides our distributors and management with the confidence to get back to what we do best, running the business and increasing sales. As we entered the second half of 2017, we are entering into a new chapter for the company. Internally, we're calling it the pivot. We are leading a conscious effort to shift the mindset of our distributors and our organization, building on the successful implementation of the FTC agreement in the second quarter, implementing new technologies to leverage the vast amounts of new customer information that we've never had before and putting all these distractions behind us to focus on growth.

Having several months of success under our belts gives us confidence from a metrics perspective, including exceeding the 80 percent threshold. And what's even more exciting is that distributor attitudes and engagement in the U. S. are extremely high. We witnessed this renewed level of activity firsthand at our North American Extravaganza last month in St. Louis, which was attended by approximately 21,000 distributors as well as many of our top investors. What's important to take away from this figure is that all the attendees were business builders. We know this because we segmented distributors and preferred members earlier this year and we have now over 440,000 preferred members in the U.S. and only distributors were allowed to attend this event.

At this one event, we welcomed additional 7,000 new distributors to our company. History tells us this type of contagious enthusiasm emanating from our North American distributors has a positive effect on our leaders around the world. And we anticipate that their leadership will be an important catalyst for growth in the coming months. I'm highly confident that we remain strategically well positioned in the global marketplace. We've talked about global megatrends on previous calls so I won't repeat all of them again today, except to bring your attention to a new study in a New England Journal of Medicine.

In a recently published study that indicated one third of the world's population is overweight or obese. They represent almost 604 million adults worldwide.

And in the area of extra income, a recent study by bankrate.com shows over 44 million American adults have a side gig, a way to earn extra money other than their main source of income. Our products, our distributors and our business opportunity working together should flourish because of these trends.

As we assessed our most recent performance, we recognized a real need for more distributors to help us take advantage of these megatrends and accelerate our top line growth rate. We recently implemented new programs and promotions to further drive customer and distributor sponsorship and retention. These include new and improved versions of our business opportunity provisions materials and new promotions that encourage consistent and duplicable activity. For example, our data shows that distributors who qualify under a member activation program outperform non-qualifiers in the areas of activity and marketing plan performance throughout their careers.

The same data shows that organizations also perform better than those that don't participate in the MAP program. We are also adding a new sponsoring and mentoring reward program to our existing member activation program to stimulate the recruitment of new business builders focused on attracting and mentoring long-term customers. Just as nutrition clubs, fit camps, weight loss challenges and wellness evaluations have become core building strategies around the world focused on daily consumption on our products, we will continue to globalize best practices and the great ideas that come from our distributors.

We recently placed a key executive in China with the intent that he will help accelerate some of these successful practices that could help stimulate growth in this key market. Our commitment to education and training will further strengthen what we call our distributor difference. Our distributors have an enviable one-on-one connectivity with their customers and they also have the last mile into millions of homes around the world. We plan to invest more in that point of sale to further enrich the customer experience. It seems each week, we are reminded of the downward trend of traditional brick-and-mortar retail.

We have a strategic competitive advantage, our distributors, who provide an experience dramatically different than what is found at traditional retail. And we want to invest more on this unique go-to-market investment model. We will soon incorporate the benefits of the robust customer data that we collected through our new tools and technologies.

For example over the past three months, we've captured approximately nine million receipts in the U.S., which has provided us insight into customer behavior that we've never had before. In addition, we're excited to announce a new partnership with Salesforce, the world's number one customer relationship management platform. Salesforce will help our distributors leverage this information to create a more effective distributor experience and a powerful, more personalized customer experience.

Now we can enrich the customer experience using proven technology and in the process, accelerate growth and better address the ever present and known mega trends. Using this new technology, we will soon do a pilot test in the U.S. before we roll this capability out more broadly next year. But rest assured, the transformation of the digital customer experience is well on its way and it's greatly enhanced from the data we are now capturing due to the segmentation of our members combined with our new receiving tools.

Importantly, we will strengthen our distributor difference by putting relevant information at the hands of our passionate distributors, which we believe will further unleash entrepreneurial spirit. Just imagine, our distributors will be on with scientifically substantiated products, more prepared education and training content and innovative proprietary new tools driven by robust customer data. Combined, this is a powerful competitive advantage for our distributors and our company and it's only getting stronger every day. Furthermore, we are accelerating innovation and introducing exciting new products to the marketplace.

Products we envisioned as recently as March are already coming to market because of our more streamlined new product process and improved development and commercialization efficiencies. In July, we launched the first of its kind Formula 1 Evening Shake in Russia that will provide

consumers with an extra day part consumption opportunity. The evening meal replacement shake is designed as a balanced dinner or late-night snack when people often overeat. It was named Innovative Product of the Year 2017 in the dietary nutrition category by the national trade organization in that country. The Formula One Evening Shake will launch in Kazakhstan later this month and Ukraine in September.

Offering more consumption occasions throughout the day is a key product strategy for us and this evening shake further expands our efforts that began last year with the introduction of our Formula One Nutri Soup in Brazil and this year in Mexico. In the area of micro (inaudible) health, we also introduced our Simply Probiotic in the U.S. last month. This unique product promotes the growth of beneficial bacteria in the intestines for those who want to maintain a healthy digestive system.

This product is especially formulated with Canadian BC 30, a patented, shelf-stable probiotic stream that can survive the acidic gastric passage to germinate in the intestines, not in the stomach, like so many probiotics products in the market. To offer more choice and appeal to a broader customer base, we plan a variety pack of smaller Formula One canisters in the U.S. this fall. The offering will feature 3 different flavored, 10-serving-sized canisters instead of the typical single-flavored, 30-serving size, providing our distributors additional opportunities to drive trial with customers.

And lastly in October in the U.S. we will introduce a bite-size format of one of our top 10 selling items, our delicious deluxe protein bars. These new formats and sizes of our top selling products, in addition to new flavors of our most popular projects, are a few examples of how we plan to create excitement, drive trial and repeat purchases, provide more variety and offer our distributors new opportunities to build incremental sales with their customers. All in all, products introduced in last 3 years have contributed to almost 25 percent of our volume. Our goal through ongoing innovation efforts and improvements in our speed-to-market process, is to increase this to one third of our total volume.

Finally, we are realigning our organizational structure to enhance our focus on the worldwide distributor and customer experience, including the key areas of innovation and education and training. As such, I'm extremely pleased to announce the promotion of Dave Pezzullo to Chief Operating Officer. Dave has been a team member since 2004, initially serving as our company's Senior Vice President and Chief Accounting Officer and most recently as Executive Vice President of Worldwide Operations.

David's been instrumental in creating world-class organizations in accounting, tax and treasury and global operations. His successful implementation of our Seed to Feed program has created competitive advantage for our company. Dave and I have a long history of working together since 1998 and we share the same vision and passion for innovation.

I couldn't be more pleased to have him on our leadership team in his new role as COO. We also announced the creation of a new position reporting to Dave, a Chief Innovation and Needs Officer. That will be filled by Senior Vice President Chris Morris, who previously led so much success with our member technology and strategy group. The entire executive team is actively engaged in and on the road meeting with distributors to accelerate growth. Next week, many of us will be meeting with all of our top leaders from around the world at our annual retreat to discuss and develop plans for growth with the goal to expand our distributor base and reach more customers than ever before.

And before we speak again in November, I'll have the opportunity to meet almost 60,000 more distributors in Fortaleza and Rio de Janeiro, Brazil; Minsk in Belarus; Madrid, Spain; Mexico City and Guadalajara; and a large tiny delegation at an event in Bangkok. And in his new role as Executive Chairman, this week, Michael Johnson is attending key distributor events in 4 cities across Mexico to meet with, inspire and motivate almost 12,000 distributors. We continue to believe there has never been a better time to be a part of Herbalife Nutrition. We understand the challenges that have slowed our top line and we are committed to improving our growth rate, while we make necessary investments in our future.

This quarter, we are pivoting the entire organization to once again be laser-focused on growth, attracting new customers and distributors to our business and provide them with the products, tools and resources they need to be successful. It truly is a new chapter of our company and it's an exciting time to be with Herbalife Nutrition. And we believe the future, with all of our new products and exciting education and products in place, will be even more rewarding. Our distributors and employees and management all share this enthusiasm and bring that spirit to everything they do.

And for those of you who have been with us recently, you can see the engagement, you can feel the enthusiasm and it's infectious and compelling. And I'm grateful to be leading this effort. Before we turn to some questions, John will give some additional details about the quarter as well as the rest of the year.

John DeSimone: Thank you, Rich. Today, I will start by discussing the company's second quarter 2017 reported and adjusted results, which will include key market highlights. I will then review our third quarter and full year 2017 guidance and conclude by providing an update on our share repurchase program. Net sales for the second quarter were \$1.1 billion, which represented a decrease of 5 percent on a reported basis and a decrease of 3 percent on a constant currency basis, respectively, compared to the second quarter in 2016.

Volume points for the second quarter 2017 were 1.4 billion, which represented a decrease of 8 percent compared to the second quarter of 2016. As we anticipated, this was a challenging period from a volume point comparison perspective. As Rich stated earlier, Q2 last year was the largest volume point quarter in the company's history. In addition, this year's second quarter was negatively affected by the transitional impact of the FTC implementation as well as the previously disclosed April 1 price increase in China that pulled volume into Q1 from Q2. Reported net income for the second quarter was \$137.6 million or \$1.61 per diluted share compared to a reported net loss of \$22.9 million or \$0.28 per diluted share for the second quarter 2016.

Adjusted diluted EPS for the second quarter was \$1.51 per diluted share compared to \$1.29 per adjusted diluted share for the second quarter 2016. Reported EPS exceeded the higher end of our updated guidance by \$0.66. And adjusted EPS exceeded the high end of our updated guidance by \$0.36 per share. Reported EPS included the benefit of \$0.33 from certain government grants received in China, which are excluded from our adjusted EPS. The purpose of these China government grant programs is to encourage local investment and in operations. However, there is no assurance that the company will continue to receive these grants in future periods. With our reported and adjusted results benefited by \$0.25 from excess tax benefits related to the second quarter exercise of employee stock-based compensation.

Excluding these ETB benefit, adjusted EPS exceeded our updated guidance by \$0.11. The lower-than-expected sales were more than offset by expense controls as well as \$0.13 of delayed expenses, which were originally expected to occur in Q2. These expenses are now expected to occur in the back half of the year and reduced our forecast for the balance of the year. Most of the delayed expenses are related to marketing and promotional spending. The adjusted EPS figures continue to exclude items we consider to be outside of normal company operations, but WE believe will be useful for investors when analyzing period-over-period comparisons of our results. Please refer to our second quarter 2017 earnings press release for additional details of these adjustments.

Currency continues to be a headwind in the year-over-year comparisons. Second quarter 2017 reported and adjusted net income was negatively impacted by \$6.9 million or \$0.08 for reported and adjusted EPS. Reported gross margin for the second quarter of 80.9 percent increased by approximately 60 basis points compared to the prior year period.

This increase was driven primarily by the impact of cost savings through strategic sourcing and self-manufacturing as well as retail price increases, partially offset by the unfavorable impact of foreign currency fluctuation. Second quarter 2017 reported and adjusted SG&A as a percentage of net sales were 38.6 percent and 37.8 percent respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 28.6 percent,

approximately 40 basis points lower than the second quarter 2016 and driven by the timing of marketing and promotion spending previously noted. Our second quarter reported effective tax rate was 17.6 percent, while our adjusted effective tax rate was 13.7 percent. Included in the reported and adjusted tax rate for the quarter is approximately \$21.4 million from excess tax benefit on share-based compensation.

Similar to last quarter, this benefit relates to the impact of the updated stock compensation standard, ASU number 2016-09 adopted in Q1. As previously stated, any tax benefit the company receives from the exercise of equity grants that is different than the fair value at the date of the grant will now hit the P&L. Excluding this direct ETB benefit, our tax rate would have been approximately 28 percent. Shifting now to our regional and market highlights. Second quarter volume points for the U.S. were down 18.5 percent compared to the second quarter of 2016, which was a record-high quarter for the U.S.

This decline in volume was the result of short-term trends from behavior pattern adjustments due to the FTC implementation, which we believe is transitional in nature. Throughout this transition, our distributors have continued to adapt and educate their educations on new tools and continue to demonstrate high engagement levels. Mexico volume points decreased 6 percent year-over-year. However, local currency net sales decreased only 1 percent. As Rich previously mentioned, this was below our expectations for the quarter. Along with the U.S., Mexico is also comparing to a record-high volume quarter in 2016.

To put the difficult comparison in perspective, Mexico volume on a 2-year stacked basis grew 4 percent compared to Q2 2015. We believe the fundamentals of our business in Mexico remains strong as Q2 2017 has the second largest number of average active sales leaders in Mexico's history. As previously disclosed, China's volume in the second quarter was impacted by the timing of a price increase announcement, which we believe resulted in the pull forward of approximately 40 to 45 million volume points into the first quarter. Otherwise, we believe much of this volume likely would have been recorded in the second quarter. The result was a volume point decline of 14

percent compared to the previous year's second quarter and in line with our expectations for the quarter.

The net sales impact of this volume point decrease was less significant as many of the transactions related to the pull forward of volume points at the end of the first quarter were recorded as net sales in the second quarter. The EMEA region had new volume point record for the quarter and grew 2 percent compared to the previously record-high in the second quarter 2016. EMEA continues to show strong performance with a 2-year stacked volume point growth of 24 percent compared to Q2 2015. Volume points for the Asia Pacific region showed a slight decline of 1 percent compared to the second quarter 2016. Volume points for Asia Pacific excluding South Korea increased by 6 percent compared to the prior year period, reflecting strong performances in Indonesia and Malaysia, which are up on a year-over-year basis 19 percent and 13 percent respectively. Looking ahead to guidance.

For the third quarter 2017, we estimate volume points to be in the range of a decline of 7 percent to a decline of 2 percent. For the full year 2017 recognizing the transitional period we are in, we're reducing our volume point range to a decline of 5 percent to flat. Net sales guidance ranges for the third quarter and full year 2017 are estimated to be between a decline of a 5 percent and flat for the third quarter and between a decline of 3 percent and growth of 2 percent for the full year. As Rick stated, while we remain disciplined in our cost management, we are confident in our plans to return to growth and expect meaningful sequential improvement in trends later this year.

For EPS, excluding the financial impact of any future share repurchases, third quarter reported EPS is estimated to be in the range of \$0.48 to \$0.68 and adjusted diluted EPS guidance to be in the range of \$0.65 to \$0.85. Third quarter adjusted EPS guidance includes a substantial portion of the \$0.13 per share of Q2 delayed expenses previously discussed as well as the projected currency headwind of approximately \$0.05 per diluted share versus the third quarter 2016. Despite the reduction in sales expectations, the company has raised its full year reported diluted and adjusted diluted EPS guidance to a range of \$3.80 to \$4.20 and \$4.30 to \$4.70 respectively.

This reflects the beat in Q2, partially offset by the net impact of the volume reductions previously discussed and cost savings identified to mitigate the impact of the lower top line. Additionally, the impact of shares already repurchased, which I will discuss in more detail, will raise 2017 reported and adjusted EPS by \$0.06. Full year 2017 currency headwinds are projected to be approximately \$0.20 compared to 2016 and in line with impact included in our previous guidance. Capital expenditures for the third quarter and full year are expected to be in the range of \$40 million to \$50 million and \$115 million to \$135 million respectively. Third quarter effective tax rate guidance is 30 percent to 32 percent on a reported basis and 27.5 percent to 29.5 percent on an adjusted basis.

Our full year 2017 effective and adjusted tax rate guidance had been reduced to ranges of 23.5 percent to 25.5 percent and 21.5 percent to 23.5 percent respectively. Lastly in regards to cash and our share repurchase activity, at the end of the second quarter, we had approximately \$1.6 billion in cash on hand. Since inception of our new board-approved share purchase program, the company has purchased a total of 4.6 million shares of Herbalife's common stock at an aggregate cost of approximately \$299.2 million, or an average cost of \$65.41 per share. Of this amount, the company purchased 1.1 million shares in the first quarter, 2.7 million shares in the second quarter and 800,000 shares in July. Since the end of the first quarter, shares were purchased in the open market utilizing a 10b5-1 plan.

While we did not buy back as many shares as anticipated when the most recent 10b-5 plan was implemented a few months ago, we remain committed to buying back a significant amount of our stock during the second half of 2017 as we have confidence in our future growth outlook and the implementation of the FTC order is behind us. The remaining authorized capacity under the company's \$1.5 billion share repurchase program is \$1.2 billion. This concludes our prepared remarks. Operator, please open the line for questions.

Operator: At this time if you would like to ask a question, please press star and then the number one on your telephone keypad. And our first question comes from the line of Tim Ramey with Pivotal Research Group.

Tim Ramey: Hi good afternoon, thanks so much. So I guess, the key questions revolve around your 3Q guidance and one would be forgiven or taking that guidance with a grain of salt, given how far you were off on the 2Q. Your guidance was for minus 12 percent to minus 34 percent. You reported down 17 percent. So trying not to second-guess you too much, but why should we assume that 3Q will be as soft as it is? You mentioned something about delayed expenditures and perhaps I need you to go over that a little bit, John.

John DeSimone: Yes, I've seen you talking of bottom lines but is the nature of this question, I think. And a couple of things to keep in mind for Q3, one is there is a meaningful amount of expenses that we're projecting in Q2 that have been moved mostly into Q3. And that's around marketing and promotions. That's just a movement from Q2 to Q3. Additionally, one of our larger events, which is our On The Circle Chairman's Club event, which is not insignificant in the amount of money it costs, was in Q4 last year. And this year, it's actually in August, so it's in Q3. That's another \$0.05. That's timing. So there are some timing issues in our guidance for Q3 that is a bit unusual.

Tim Ramey: And then relative to share repurchase, you mentioned being somewhat disappointed with the pace in the 2Q. And you were disappointed in the pace in the 1Q. Why are we not hitting this closer to expectations?

John DeSimone: Yes, I don't think I'd use the word disappointed as much do as less as we expected. As you know, I think we've been transparent that we've been using a 10b-5. Actually this quarter, it was exclusively a 10b-5 plan. Those 10b-5 plans set up certain parameters for repurchasing stock. At the moment you enter those plans and then you live by those parameters.

And the parameters that we put in drove what ultimately was less of a amount of share repurchase that we would have thought, given that (inaudible) the stock moved a lot after the 10b-5 plan was put in place, both in Q1 and it did it again in Q2, so that was a driving factor, it wasn't our commitment to share

buyback. In fact, it really leaves us with our plans to the amount of money we are going to spend on repurchasing this year hasn't changed. So the fact that we purchased less than expected, both in Q1 and Q2, means that we're going to purchase more than we expect in Q3 and Q4 versus what our original plan was when we put the authorization together.

Tim Ramey: And presumably, your instructions on your 10b-5 or whatever is the vehicle would allow for that?

John DeSimone: That's correct. Again, no guarantee there'll be a 10b-5 this time around. But whatever we do, our intention would be to repurchase more quantities in Q3 and 4 than we did in Qs 1 and 2.

Tim Ramey: Right. And then just -- Rich, your commentary around the state of the business was pretty effusive, pretty upbeat. It didn't really square well in my mind with the call down in sales expectations for the 3Q and for the full year. Can you kind of speak to that?

Richard Goudis: So listen, I'll start with the excitement part and hand off -- the guidance to John. But listen, we came out of July Extravaganza with 21,000 people. And we were all extremely moved by the enthusiasm and excitement in the business. It was apparent. It was visible. You could hear it. And listen, there's a lot of reasons for that. The success of the FTC order gives our distributors an amazing amount of confidence that they can live under these new rules. And they're seeing it in their checks every month, Tim. And lay it on top of that now and given that their business -- and the only way to get paid is based on receipts. Now we have the confidence to layer on some promotion that we had been shy to have for the last few years as it relates to bringing new distributors to the business.

So we see in this business, the metrics really start first by being close to distributors and listening to what they're saying and how they are talking about the business. And that was very loud for us in July. And then we've seen that sort of contagious enthusiasm pick up around the world just over the last 2 or 3 weeks. So as John said and I agree, we're still going through a transformation period. We still have people learning new tools, learning how

to be more productive with those tools. And I think that as we -- our expectation as we exit this year, that -- you can see the momentum of the business pick up.

Tim Ramey: OK terrific. I'll turn it over, thanks.

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

Mike Swartz: Can you hear me?

Richard Goudis: Yes, we can hear you.

Mike Swartz: OK. Just wanted to touch on the U.S. down 18 percent in the quarter. I know you said that was in line with the updated expectations you gave in June. But just wondering how you're thinking about that business in the back half of the year? It sounds like you think you're going to get through this soft period. But I guess, what are you building into your outlook for that?

John DeSimone: Mike, this is John. I'll take that. So a couple of things in US. One is I think distributors are getting used to the tools. And that's been a lot of focus for our distributors is really -- I think of it as almost the validation of what they already know. And now they get to be more back to normal business routine. And I think one of the weaker points was distributor sponsorship because there was so much focused on documenting consumer sales that, that effort took time away from other business builders.

And our distributors are in fact our customer acquisition vehicle. And so we're starting to see that momentum change a little bit. I don't know if you were in St. Louis. But as Rick said, the attitudes are very positive. And we're able to now design promotions around consumer transactions and then combine that with sponsoring a business builder. So there is a little bit of increased level of engagement going forward in our forecast. And that combines with what is going to be an easier comp, given that we announced the settlement with the FTC last July and things softened after that.

Mike Swartz: And just to clarify, I mean, are you seeing things improve in July?

John DeSimone: So I think with Rich was referring to is since St. Louis, where we've launched some new promotions that we hadn't done in a while, that we are seeing -- sponsoring pick up. Small sampling size, so put it in perspective, we pass it on to Des to may be add some comments.

Desmond Walsh: Yes. Mike, listen. I think the key message at Extravaganza in St. Louis was obviously in relation to the FTC settlement just aligned that we got this, right? So what the distributors have shown is they are on a position to comply. They've embraced the tools. As Rich mentioned, approximately nine million receipts that have come to us and now it's time to pivot. And that's the message given throughout the event and Extravaganza. And we are seeing that in terms of level of the enthusiasm, levels of engagement. And listen, our distributors are never happier than when they're talking to more prospects, whether it be customers, whether it be future distributors. And now they feel they're in a position to do that, right? They're in a position to comply with the order. They've got the tools. They've got the people engaged. Now, it's time to go back and refocus on the business and I think that's what we're seeing.

Mike Swartz: OK, thanks for the color there and I think, Rich, you had mentioned a number of investment areas that you're looking at going forward. And some of that was on sponsorship. I think some of you were talking about POS or just the retail side of the business. Can you talk about maybe a little bit more color on that and how to think about maybe the dollar investment you're thinking about and timing of investment?

Richard Goudis: Yes. So I think we're very off to the races. So from a standpoint of building blocks, let me pick what Des said. So with this transformation and working under the new order in the U.S. we've created nine million customer transaction receipts in last three months. And to be a quite honest with you, we've been absorbing them. Our systems are absorbed them, we're auditing them, et cetera, et cetera. And we're now with this announcement with Salesforce, who we've been talking to them and others over the last several months to pick the right vendor, the right partner. We're going to start to roll from our heels just absorbing those receipts to getting up on our tippy toes and use those receipts, work with a sample group of about 2,000 distributors in this beta test, reaching a little over 10,000 customers and start to really use

and leverage the CRM technology, coupled with what we already have in 101 relationship between our distributors and their customers.

So we think that those together is going to be very exciting for our distributors. Engaging, I think it's going to land less -- extend the customer relationship, the customer in ordering and the life cycle of a customer because we're going to provide those customers with better experience. On top of that, if you think about that last mile that we talked about, content is very important. So what we hear from our distributors is that by providing them with very rich content, whether it's product content, whether it's how to make the product or how new products are made or nutrition between the products and science, whether it's training on different messages of operation on that kind of content, whether it's fitness content, whether it's third meal preparation content, right? All these kinds of contents that help consumers achieve their goals, do their results. And if our distributors can be the conduit for that in a prepackaged manner, it will enrich their experience and drive better results, again leading hopefully to longer lasting customers.

And then innovation, so the last one is really innovation and it's really across the board. We've had a lot of success recently in innovation and product. We're taking some of our top selling products. And as you heard from the call, we're going to have some sample sizes of our products, if you will, to create more trial and engagement and create more excitement for our customers. And we're taking that and leveraging and saying, let's have this innovation culture really be spread throughout and across the entire company.

So there's a lot of reason for excitement, but the foundation and the building blocks are now behind us. And there's an emotional -- so there's an emotional feeling of success that we've done it. Now let's build from here. Now you bounce all of these stuff up with the mega trends in obesity, aging, population, right, skyrocketing public healthcare costs, the rise of people seeking entrepreneurial activity activities, the decay of traditional retail. And we just we're just pinching ourselves that we're in such a unique and exclusive spot.

Mike Swartz: Thanks for the color. And then just maybe a final question for John. If I -- looking at the math correctly, it looks like pricing added about 5 percent to top

line during the quarter. If I look back at first quarter, pricing was slightly negative. And then with your guidance, it implies something like 2 percent, maybe 3 percent pricing in the back half of the year. Can you talk about maybe what's driving the pricing and maybe the discrepancy between the quarters?

John DeSimone: Yes, well I think it's not just pricing. It's pricing and mix. And we've had a swing in mix. As you know, the way China sales are booked, there isn't a discount. Discount doesn't exist. It exists in other markets. So it ends up being a higher gross margin country. Not a higher operating margin for a volume point country, but when you think in terms of net sales, China plays a big swing as does Korea, because they both different marketing plans. And so as - - different countries have different profitability levels, so there's a mix issue in there that also has an impact. And that's really more than price.

Operator: Our next question comes from the line of Doug Lane with Lane Research.

Doug Lane: Yes, hi, good afternoon everybody. I want to stay on the investment that you're making in the technology here. Obviously, it's been a big cost in a short period of time over the last year. And now we're starting to talk about the returns on that cost and that's fairly intriguing. So what we have now in place? What kind of information do you have now that you didn't have before? And maybe to put it in perspective, a lot of drug-selling companies do have ship to customers already. What kind of information are you getting as a company that your competitors are not getting?

Richard Goudis: Yes. So first as you said, over the last year, we've built this amazing point-of-sale tools to operate for all different methods to our business, whether you're coming to a club, whether you're transacting over your cell phone, or iPad, or just over a traditional desktop computer. So those tools are now foundational. And I think once we get through this year, given the desire of people -- distributors around the world to have similar tools, I think we're now starting to develop on how we roll that functionality and capability out. And again these are built on an Oracle platform. So the ability to roll this out I think is a lot more efficient as we have more stuff to build.

I think you –specific to your question, in the past our distributors had customers. And even though we may have drop shipped to their customers, right, we didn't know what they paid for the order. And so now we have that visibility, right? And now hopefully with Salesforce, we're going to also work with our distributors to get permission on how we increase and improve that customer experience of even if what they get in the box. And also now with segmentation of our business, right, we can now put different messages in boxes that we know are going to a preferred member versus going to a distributor, right?

Before this year, as you know, we treated everybody like a distributor. 'Hey, Doug, congratulations on 100 volume point order. You're 200 volume points away from going to an SDS this weekend.' And Doug's like, 'what's an SDS,' right? 'I'm just a preferred member.'

Now we're able to segment those messages. And we're seeing click-through rates in e-mails more than double what they used to be, just because we're I'll say exact targeting the message to right audience. And I think you layer on top of all this foundation, what we think is this real excitement of what Salesforce can bring us, given that some of the test and the modeling seen so far. And now we're putting it into our hands to manage it right, but we're putting it more importantly into the hands of entrepreneurial people. That potentially becomes explosive. And that's what's really exciting and as you said leveragable and really drives an ROI in this technology investment we put in. On that note, Doug, in two or three weeks, we're upgrading our Oracle platform here to Oracle R12, again to give us a longer-lasting competitive advantage that I think is pretty enviable in this industry.

Doug Lane: Along those, Rich, can you talk about the dynamic between the company and the distributor leadership? There's always been a bit of a natural tension there as they're very protective of their businesses and their customers. And now all of a sudden, you've got this huge pipeline, if you will, in the end user. How has that worked out between you and your distributors and your ability to work together?

Richard Goudis: Listen, I think it's a partner relationship, right? And I think that honestly what the FTC -- that whole ordeal brought to us was a stronger partnership, really, a behavior-like family is what we're calling it internally. The trust is high. Engagement is high. Because they see that working together, we've created a competitive advantage for our distributors. I think if you specifically think about how Salesforce will roll out, I think that's going to be something that through this beta test, we're going to work through our distributors to find out what should they do, what should we do? There may be cases where people would rather spend their time bringing the distributors into the business and may offload the relationship -- the customer relationship management, if you will, to the company, right?

There may be others that want to be highly engaged. There may be some that say, 'I'm a sports enthusiast. If I'm a weight-loss customer, I might dump and push that customer into Herbalife to manage because that's not my forte or my strength.' So I think that we're still eager to find out the capabilities -- the capabilities of Salesforce. And as you know our distributors, they have feet on the ground. And they're going to bring things into our attention that we can't even figure out here and then working together, make that really best solution we can have.

Doug Lane: OK. And just finally, John, on the volume points. The third quarter volume points I mean, you take into the consideration the easier comparison, it looks like more of the same versus June quarter. And you brought down the full year by three points at the midpoint. Was most of that in the third quarter? Is that a flip through in the third quarter and the fourth quarter? I mean I guess what I'm getting to it as are we looking for positive volume growth point in the fourth quarter?

John DeSimone: So most of the impact is from our guidance reduction is Q3, but there is some impact into Q4. And Q4 could be growth. That's in the range that's implied in the guidance, but so -- is slightly negative. So it's kind of around that flat. It's a big improvement Q4 versus Q3 and (inaudible). But if you look at the range and just did the math, you see that kind of it straddles kind of flat.

And the reason of course is if we look at where the volume softness has been, it's really been in lower volume from new distributors being sponsored. And that's all the changes we talked about with some of the promotions going on. But that activity has already taken place on the sponsorship side in Q2 that will impact Q3. So now it's the efforts in Q3 around these promotions that will drive benefits in Q4.

Operator: Your next question comes from the line of with Citi.

Beth Kite: The -- if I could just touch on local currency sales growth a bit more. So your range for that, for 2017 and also for volume point growth is obviously wider now. So kind of -- if you could help us, which markets drove you to expand that range when you think about the second half of the year? And if you came in at the low end of the range, where do you expect the pressure points might continue to be? And conversely, if you do better and or at the high end of the range, which markets do you expect could outperform kind of the midpoint of guidance?

John DeSimone: There's three markets to discuss. Mexico, as Rich mentioned earlier I think in his opening comments, that were a little bit of a surprise. I'll explain on Mexico in a second. It's the U.S. and it's China, right? and Mexico is somewhat new, a little bit of Mexico, it was a really difficult comp. I know we talked about that. The two-year stack actually in volume points is growth of 4 percent. Some of the challenges really relate to what happened in Q2 of last year, which is an incredibly strong quarter.

New members last year in Mexico in the second quarter are up 31 percent, right? so 2-year stack on new members, we're still up close to double digits. So it's really tough comps, but we did miss. And anytime we're going through a transformational change that's behavioral driven, where our distributors are driving some sort of behavioral shifts from what's normal, our models are a little bit less predictable. And when our models are little less predictable, we widen the range. And that's the purpose of widening the range is to indicate that during this transition, there a little bit more variance than what we're predicting. But it's good. The upside and the downside are all going to be in those 3 markets, I believe.

Beth Kite: Got it. And that actually leads me to a couple of other questions. On China specifically, the description of the business in the 10-Q in the second quarter has a number of drivers, I'd say a handful positive and a handful negative, the positives being the number of program that cited, new company products through the online platform. Obviously Nutrition Club is coming down, the social media impact.

So can you just help us to understand kind of like what matters the most to you? What are you -- where are you still a really isolated, laser-focused and trying to solve for in China. And then related to that, there's one of the negatives is cited as being impact of the national congress this fall and the lack of approvals, I guess, you'd say for some commercial meetings. So if you could address that as well.

Desmond Walsh: Yes. Beth, this is Des. I'm happy to take that. So that's what we see in China so obviously we got some regions in China that are positive and some regions that are negative. And so as always what we're doing is we're working with our global leadership to actually identify the factors driving growth and identify the factors in those regions that are negatively impacting us. And obviously for us, the key factor always is the engagement of our distributor leadership and I'm just happy to say that that's obviously very strong in China.

In addition to that, obviously we're putting a huge amount of focus on China. As you know, we recently had somebody gave their somebody with a huge experience in the businesses run some of our top-performing regions over the years, a 15-year veteran. In addition, other of us are actually in China pretty well on a monthly basis. So working very closely with our distributor, our leadership to identify the key success factors and then mitigate factors that has been working against us. In relation to the second part of your question, every five years, there's a national congress that takes place in China.

That's taking place this fall and coming up and in the months leading up to that, there is overall restriction in relation to (inaudible). This, by the way, does not apply just to us. It applies to (all companies). It's the nature of how things operate there. And so we obviously see this as having a short-term

impact on the business. But we're engaged with our distributor leaders on how to address that. And obviously what we're planning is at the back end of the year, very substantial series of meetings across all of China to close out the year and prepare us for 2018.

Beth Kite: Got it. OK. And then if I may, please move to the United States. Are you able to share with us the percentage of sales in the U.S. or documented purchases by consumers for now the three-month period of May, June and July?

John DeSimone: Yes, I'll take that. Look, it's not inconsistent with our results for the last two months and for the quarter in total. It's consistent actually with our announcement in May. We're not going to get into the habit of announcing what those are every month. But I could at least tell you for this quarter, it was consistent with the announcement. So ...

Beth Kite: Got it. OK. So not to run on Extravaganza too much, but it sounds positive for sure from the commentary you've said so far in the call. But were there new promotions offered or announced at that? And also the new products that Rich cited at the start of the call were those debuted? What is the consumer -- or the distributor response to some of those new product pack sizes, things like that?

Richard Goudis: Why don't I take the product first and then I'll hand the promotion Beth and hit both your points. So a few things, one, we launched Simply Probiotic product at the Extravaganza, but more importantly, we show them what's coming in just the next few months. For example, bite-size of our number of top 10 selling deluxe protein bar, 10-serving-sized canisters of Formula One in a 3-pack for the holiday season; Lifestage Boosters for our Formula One, so that we can segment Formula One better by different life stages.

And we previewed a new mom booster because you want to be on the right side of a mom and breast-feeding during that really important time in their life together. So I think those are all met with enthusiasm, especially when you think of a lot of people coming into our business are 25- to 35-year-old females who want to lose weight. This is a community of a lot of women who just had a child. So I think there's tremendous enthusiasm that the products

that we're looking to launch in next several months are hitting really strong sweet spot with our distributors and then the promotion.

I'll hand it over to Des.

Desmond Walsh: Yes, Beth. So you know that one of the things that we've been focused on, gosh, almost for 18 months now, is the whole question of member activation, encouraging the new members as soon as enter the business that they focus on, creating a strong stable base of five to seven happy customers. And that's been a program that we've pretty well launched around the world.

What we introduced at Extravaganza here in July was an additional element of that, whereby we reward the upline for actually creating qualifiers in the member activation program. And so -- because obviously what we want -- what we found is that your upline has a huge impact on training and mentoring and guiding you to success. So we wanted to reward that. That was extremely well received by our distributor leadership and we think that's going to be one of those things that you're going to see have an impact in the latter half of this year.

Beth Kite: Got it. And if I may ask just one final question, on the SEC investigation, it looks to me like the language in the 10-Q for the second quarter is similar, if not the exact same, as the first quarter. So is there anything else that you can add in the context regarding that? This is the investigation regarding China. And then also even if you kind of add context on sort of what you're seeing internally, just are there dollars being spent for it? Are you incurring legal fees or otherwise associated to that investigation?

John DeSimone: Beth, this is John, I'll take that. You are right. Our disclosure did not change substantially. So it's I think maybe it's actually identical to what it was in Q1. With that, there's no other comment that we can say, the investigation is ongoing. Regarding costs, if you look at our adjustment that we've made to our earnings on the back page of our press release, you'll see an amount there for regulatory increase and that's what this investigation is -- the costs. So you can see it, it's pretty transparent.

Operator: Your next question comes from the line of Ivan Feinseth with Tigress Financial.

Ivan Feinseth: Hi, thank you for taking my call. My question is about product development. In addition to the probiotic that you launched last month, what is going to be your R&D development process for new products? And what kind of products do we expect going forward?

Richard Goudis: Well, that's we could spend a couple of hours on that one. But just to hit some highlights to tease out a little bit is listen; we want to find more consumption opportunities for our number 1 selling products. So let's take Formula One. Most people take a meal replacement shake in the morning. So as we said on the call, we launched a dinner shake in Russia to now have the opportunity and be given permission from distributors and their customers to have Herbalife at night.

We're looking at things like soups rolling out around the world. We introduced a soup in Brazil last year, early this year in Mexico, we did -- and we're going to have additional soup lines going in Brazil to at least get the permission from consumers to maybe participate at lunch or at dinner. We're looking at different transformational type of boosters that will take our Formula One as its mixed today and you add this transformational booster to it and it becomes a pancake. Or it becomes a waffle or it becomes a muffin or a cookie, all with the same protein, all with the same, let's say, prescriptive side panel of nutrients -- micro and macro nutrients.

Again, that's is extending what we know and what we're good that. We're very vertical in the sourcing -- strategic sourcing of our Formula One in the manufacturing and the quality. And if we can extend that brand across multiple day parts with things like smoothies in the afternoon. We're also looking at things like protein dips. We're looking at things like salad dressings for Formula One. So again, I think our customers give our distributors permission to talk to them about their nutrition, specifically about healthy weight management.

So if we can extend that throughout the course of the day, I think that will help us grow our sales in that just one category. We're looking at tea, maybe more functional teas. We're looking at aloe more functional aloe, again, leveraging our supply chain, leveraging our vertical manufacturing capabilities and providing more segmentation of those top-selling brands, if you will and again lengthening the customer experience with our products.

Ivan Feinseth: And are you planning on making, let's say, certain market-specific country-specific products? Or how would you kind of come up with those types of products?

Richard Goudis: Yes. So listen, definitely flavors, I think that's one thing we've been venturing on a little the last 5 years is making country-specific favors. If there are country-specific products, we have to do the ROI on that and see what the return is, given the investment in big countries quite possibly like Brazil, like Mexico, like China, Russia, India and a few others. But I think the other ones would just take -- the other countries would just get the benefits of some of these big products and we roll them out then we localize them.

Operator: And our final question comes from the line of Tim Ramey with Pivotal Research Group.

Tim Ramey: Thanks so much for the follow up. I just was unclear about how the Oracle platform works with or is supplanted by the Salesforce platform. Will there be any onetime costs related to either Oracle or Salesforce? And back to John's comment on shifting costs from the 2Q to the 3Q, could you be more specific on that and whether those fall in SG&A or up in overrides?

John DeSimone: I should actually take both. So Salesforce is a tool that will leverage the data that we capture in Oracle and any other system that we have, OK? What Salesforce will do is use our data to present it in a way for the company and its distributors to benefit their consumers. That technology is technology we don't have.

We have the data; we don't have the technology to use the data in an optimal format. That's what Salesforce brings. Will there be some costs? Yes, Salesforce is not free. We'll find a way to fund it. It's probably 50 percent of

the costs to be CapEx; the other 50 percent will be OpEx. But it's not significant cost, to put it in perspective. It's very manageable. And then regarding the timing, the timing of spending is mostly SG&A.

Tim Ramey: So that should increase as a percentage of sales, I would think fairly meaningfully in the 3Q. Is that correct?

Richard Goudis: Listen, it's a beta test right now, Tim. So I think that's something that once we get the beta test, we'll have to see how that scales next year with Salesforce.

John DeSimone: Yes, Salesforce hasn't got a meaningful impact in Q3. But the timing of the expenses that moved from Q2 will. And yes, you'll see a spike in SG&A as a percentage of sales in Q3.

Operator: And we have reached our allotted time for questions and I would like to turn the call back over to Rich Goudis.

Richard Goudis: OK. Thank you and thanks, everybody. So listen, we wanted to end the call today and reiterate that our top line growth rate is not what we should be delivering. But as you heard in the call and actually called out on the Q&A, we're very excited about the future. We have very strong initiatives in place to address the opportunities to return to more normal top line growth rates. We're extremely optimistic about our future as we focus on accelerating innovation through our business, strengthening our distributor's difference in enhancing the customer experience. I'm thrilled to be leading this great company and ushering us to a new chapter for our history. Thanks, everybody.

Operator: Thank you for your participation. This does conclude today's conference call and you may now disconnect.

END