

Herbalife International of America, Inc.

Moderator: Eric Monroe
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OPERATOR: This is Conference #5481939

Operator: Good afternoon, and thank you for joining the Second Quarter 2018 Earnings Conference Call for Herbalife Nutrition Ltd.

On the call today is Rich Goudis, the company's CEO, John DeSimone, the company's Co-President and Chief Strategic Officer, Dr. John Agwunobi, the company's Co-President and Chief Health Nutrition Officer, and Eric Monroe, the company's Director, Investor Relations. I would now like to turn the call over to Eric Monroe to read the company's safe harbor language.

Eric Monroe: Before we begin, as a reminder, during this conference call, comments that may be made may 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 today's earnings 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 statement or to report any future events or circumstances or to reflect the occurrence of unanticipated events, except as required by law.

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

statements prepared in accordance with U.S. generally accepted accounting principles, referred to by the Securities and Exchange Commission as non-GAAP financial measures.

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

Please refer to the Investor Relations section of our website, 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 will now turn the call over to our CEO, Rich Goudis.

Richard Goudis: Good afternoon, everyone, and thank you for joining our call today. We have an amazing company. I've been part of Team Herbalife for 14 years, yet every day, I'm reminded how special our company is.

And for those investors who have been with us for a while and know as well, you also understand what a truly exceptional place this is.

We're a company whose shared purpose of making the world healthier and happier inspires us, leads us, drives us, and is embraced in advance by our community of like-minded people.

Our commitment to product quality and consumer protection is leading our respective industries and raising the standards of companies in the nutrition and direct sales fields.

And most importantly, we're having a real impact on the lives of those we touch. People are becoming healthier. People are becoming more active, they are losing weight and improving their lives because of the results we sell and the business opportunity we provide.

Yes, it's indisputable that we have built a purpose and performance-driven company that is deeply grounded in our principles, and one that has a strong foundation from which to grow.

We had a strong second quarter, and I could not be more proud of our distributor leaders and employees to work together to make this happen.

As you've seen by now, our top line growth rates accelerated in Q2, reflecting the strong momentum in our business. John will talk about our financials in greater detail later on the call, but let me share with you some very positive, high-level financial steps.

All six of our regions reported local currency net sales growth, and five of our six regions experienced year-over-year volume point growth. And on the subject of volume points, Q2 was a record quarter for the company and 12 percent higher than last year. This surpassed the previous record-high volume points set in Q2 of 2016.

All of our top five markets experienced growth, including Mexico, which returned to growth in the quarter, and of those five markets, four grew in double digits.

And probably most notable and maybe most importantly, our U.S. market grew by 19 percent, reflecting the strong consumer demand of our products and the tremendous efforts of our distributors to implement the new tools and procedures we put in place last year.

In fact, our distributor leaders have taken note of the growth in the U.S., and we are now exploring with them which tool and procedures they might want to roll out in their markets.

Another performance metric that helps the business, although not financial, is the opportunity for people to be successful within our distribution system. Here are just a few highlights that you should know are important to us.

Globally, excluding China, we had the highest number of new qualifiers for president's team since Q1 of 2013.

In fact, we had more new members achieve the president's team level in Q2 than the past six quarters combined, really impressive given that this is a significant leadership level within our organization. Importantly, we saw the same trends in the U.S. with the highest number of new president's team members in our 38-year history.

Two distributorships, one in the U.S. who is our youngest ever to qualify, and our first ever to qualify from Puerto Rico, achieved the highest recognition level in the company, our chairman's club.

These two stories are really remarkable because they were achieved in markets where we have documented volume requirements. This further demonstrates both the strength and resiliency of our direct-to-consumer business with a genuine product demand and a healthy business opportunity.

We believe our overall success can be attributed to the consumer demand of our high-quality effective products combined with our distributor difference, providing customers with nutrition education, coaching and support, and a community of like-minded people.

Distributors are our unique and competitive point of difference, playing a critical role in fulfilling our purpose of making the world healthier and happier.

The one-on-one high-touch customer relationships that our distributors create is needed now more than ever in the field of nutrition, in light of the global megatrends, including the increasing rates of overweight and obesity, the high cost of health care, and an aging population.

Our business opportunity also plays into the megatrends of those individuals seeking an entrepreneurial and flexible working situation.

Our drivers for growth include expanding our product portfolio to sell more products to existing customers who give us permission to speak to them about something as personal as their nutrition needs and their weight and body

transformation goals, along with accelerating the launch of new products and entering new product categories in order to attract new customers.

We're also focused on leveraging technology to improve the customer and distributor experience and improve the efficiency and productivity of our distributors, strengthening our distributor difference through education and training and above all, creating a culture of innovation across all heirs of our business.

Let's review some of our new products. In Q2, we continued to expand our product portfolio to help distributors attract new customers and sell more to their existing customers.

Our focus is on leveraging trends in the nutrition and food industry, providing personalized nutrition solutions, and catering to regional and local preferences. A total of 35 products were launched globally in the second quarter. Let me highlight just a few of them now.

We continued to leverage opportunities in key markets to create and satisfy consumer demand in order to drive increased consumption of our top-selling products. Several local flavors of several popular products were launched in Q2 to provide more consumer choice by offering options that resonate with consumers in each market.

For example in India, we introduced the first ever local flavor in that country, our Formula 1 healthy meal in kulfi flavors is based on a popular Indian frozen dairy dessert.

It was one of the highlights at the annual sales event in June and is already the top seller that market. This initiative really highlights the R&D center we opened in Bangalore just last year.

We also introduced a local flavor of herbal tea concentrate in Hong Kong. This new flavor, honey ginger, was developed and launched in the country in June and has quickly become number one seller.

On our last call, we talked about our first Formula 1 shake made specifically for Nutrition Clubs which we launched in Brazil. It comes in an 80 servings size pouch, delivering improved economics and convenience for our customers.

Based on the success of the product, we've launched two new flavors, strawberry and vanilla, and we plan to expand this product to additional markets later this year including our Russian-speaking markets.

And in July, we expanded our successful Herbalife24 elite sports portfolio in the U.S., with the launch of our first ever Herbalife24 achieved protein bars that are NSS certified for sports with simple, clean ingredients and no artificial sweeteners.

This product provides convenience and affordability, creating an additional usage occasion for this more discerning customer who, according to our stats, spends more in products and stays with us longer than other customers.

Also in the U.S., we launched a new shake booster. This booster is part of our strategy to expand our personalized nutrition offering to meet the specific needs of customers in different life stages, providing our distributors the opportunity to drive incremental sales of their current product offering to existing and new customers.

The first booster to launch is called New Mom for Wellness, providing specific nutrition for new moms at a critical time in their lives. It launched last weekend at our sales event in Houston. In the coming months, we'll be launching additional boosters, which we'll talk about closer to the launch dates.

We're excited for the culture of innovation we are cultivating throughout our company to develop these products along with some exciting concepts that could launch within the next year.

Our doctors, product development team, manufacturing staff and our distributors are all working together, contributing to the ideation and expansion of our world-class product portfolio.

Another area of innovation we focus on is leveraging technology through our digital transformation strategy. You've heard us talk about this strategy on previous calls. We call it HN-connect and is built upon the salesforce.com platform, placing the power of CRM technology in the hands of our entrepreneurial distributors.

Taking a crawl, walk then run approach to implementation, we began testing the tool earlier this year with a small beta group of about 200 distributors. In Q2, we moved into the walk phase, expanding the HN-connect pilot group to include more of our top U.S. leaders for further testing and refinement.

Throughout the pilot, that tool has grown increasingly robust with eight automated marketing campaigns or journeys targeting key touch and decision points throughout the distributor, preferred member and customer life cycles.

We have also developed custom coaching plans to help our distributors offer easy, systematic training for their new people starting the business. And we've added predictive analytics powered by artificial intelligence for targeted data-driven recommendations for distributor outreach through their downlines.

After spending the last quarter enhancing the platform based on distributor leader's feedback, we further promoted the tool at our North American sales event last week, attended by a record 26,000 distributors who showed significant interest and excitement for the tool.

This event provided us with a great catapult into the run phase of the process, expanding the pilot to 6,500 distributors this past weekend.

This expansion of the test demonstrates our confidence in our internal teams to collaborate with our distributors and continue to build the tool's functionality and will allow us to pressure test the system, analyzing data at scale and testing the artificial intelligence predictions.

We believe HN-connect will further power the distributor difference to create a high-tech and high-touch experience that will further drive the competitiveness and success of those seeking our business opportunity. I'm so impressed with the speed of this important strategy as it was just a concept a year ago.

Another area of the business where we are working closely with our distributor leadership, to further enhance the distributor and customer experience, is the development of our robust education and training ecosystem, which was advanced during the quarter under the leadership of Dr. John Agwunobi.

We believe educated distributors are our best distributors and that our distributor difference is our most competitive advantage over traditional and online retail. We continue to focus and invest on our distributor difference through a combination of high-tech and high-touch tools and programs.

In the second quarter, we held our first ever distributor training and education summit here in Los Angeles, which was attended by our top 10 distributor leaders representing every region who came together to help us shape the future in this important initiative.

The purpose of the session was to further define the fundamental requirements and necessary content of the education ecosystem for the long term. As an example, in our first step, we're letting out the training path for our distributors in their 90 days which, as you may imagine, is one of the most critical times within the distributor journey.

With so much to offer, we believe Herbalife nutrition has a responsibility to be a solution to many of the global megatrends I mentioned earlier. To help highlight who we are, what we stand for and how we can help, we continued our important efforts to educate key thought and opinion leaders throughout the quarter.

In May, I had the honor of meeting with China's Vice President, in a public media coverage event along with several other executives from U.S. companies.

In addition to briefing the Vice President on our purpose to make the world healthier and happier and the positive solutions we bring to some of the biggest global megatrends, including obesity and the related diseases that put pressure on national health care spending, we committed to participate in China's Healthy 2030 initiative, promoting a healthy lifestyle and helping to develop the health industry.

I had a similar publicly covered meeting with the government of the Jiangsu province in June. And as you can imagine, being on local TV with these local leaders will be very important in strengthening our relationship and growing our business in China.

While we continue to establish and strengthen our relationship with governments in China, our team is also doing some amazing work to further build our company's positive reputation in China.

This includes participation in National Nutrition Week in 10 cities with grassroots activities and media outreach and the introduction of a touring pop-up nutrition experience, which will visit 12 Chinese cities in 3 months and expose our brand and purpose to approximately 2 million visitors.

Here in the U.S., we announced our national partnership with the League of United Latin America Citizens or LULAC. LULAC is the largest and oldest Hispanic organization in the United States.

Their mission includes advancing the economic condition, educational attainment, political influence, housing, health and civil rights of Hispanic Americans. This partnership is an important step in our commitment to the overall Latino community and to the financial education and success of Latinos within our Herbalife Nutrition family.

Also important to our brand image and furthering our corporate reputation is a recent expansion of our CSR activities. I'm proud to announce our latest partnership with the American Cancer Society with a focus on eradicating breast cancer.

In addition to our financial commitment to this important organization, we plan to work with our entrepreneurial distributors to raise awareness about early detection and once again, make our communities healthier and happier.

Another important strategy to strengthening and expanding our brand initiative is our investment in sports sponsorships. As you know, we go far beyond providing monetary sponsorships, working with our athletes to enhance their performance through nutrition science, coaching and mentoring.

For those of you who are soccer fans, you know our Herbalife Nutrition-sponsored Belgian national team, the Red Devils, made it all the way to the semifinals in the World Cup and placed third overall.

One of our sports doctors was in Belgium last year working with the national team doctors, nutritionists and local staff on scientific substantiation, product integration and sharing best practices.

In addition to the Belgian team, four of our sponsored soccer players participated in the World Cup. Cristiano Ronaldo played for Portugal; Juan Cuadrado played for Columbia; Jonathan Santos was on the Mexican team, and (Jamie Benito) represented Panama.

And we now hope these 27 players will return to their home clubs and talk about the importance of good nutrition and their trust and confidence in the efficacy and safety of the Herbalife Nutrition products.

Also in the soccer world, we renewed our sponsorship with Cristiano Ronaldo, who moved from Real Madrid to Juventus. Cristiano has been a great partner, sharing in our purpose of making the world healthier and happier and being a role model for younger players to develop nutrition habits.

He joins another one of our sponsored athletes on the Juventus team, Juan. Cristiano's move was highly publicized, and we've leveraged the news through print ads and social media.

These are just some examples of highlighting the importance of our sponsorships and now we leverage them to build a positive brand image that our distributors use to attract and retain customers.

In closing, I'd like to repeat what you've heard me say over and over: there has never been a better time to be part of our great company. The momentum continues to build, and we're excited to carry it into the second half and finish the year strong.

While we continue to generate excess free cash and I believe remain conservatively capitalized, we've begun developing our growth plans for 2019. We look forward to sharing more with you at our Investor Day in New York on October 31.

We will be able to give you an even deeper dive in the company and share with you all of the initiatives we have to drive growth. Now let me turn it over to John to talk about our financial performance in the quarter

John DeSimone: Thank you, Rich. Let me start by discussing the company's second quarter 2018 reported and adjusted results, which will also include key market highlights. I will then review our third quarter and full year 2018 guidance and conclude with a brief update on our capital structure.

Second quarter reported net sales of \$1.3 billion represented an increase of 12 percent compared to the prior year. Volume point growth was very broad-based in the second quarter, including double-digit growth in four of our top five markets.

As Rich mentioned, Q2 volume points of 1.5 billion was the highest volume point total in any quarter in the 38-year history of the company.

We've reported net income of \$94.4 million or \$0.62 per diluted share for the second quarter of 2018 compared to a reported net income of \$137.6 million or \$0.81 per diluted share for the second quarter 2017.

Adjusted earnings per adjusted diluted share were \$0.80 compared to \$0.76 per share for the second quarter 2017. Note that all EPS values have been adjusted to reflect the stock split, which was affected in May of this year.

The adjusted diluted EPS figures continue to exclude items we consider to be outside of normal company operations or we believe will be useful for investors analyzing period-over-period comparisons of our results.

Please refer to our second quarter 2018 earnings press release on these adjustments. Our Q2 adjusted diluted EPS of \$0.80 was above the high end of our guidance range of \$0.58 to \$0.68.

This EPS beat was primarily driven by higher-than-expected sales in the quarter. Reported gross margin for the second quarter of 81.7 percent increased approximately 80 basis points compared to the prior year period.

The increase was primarily driven by favorable impact of retail price increases and lower inventory write-downs, partially offset by the negative impact of foreign currency fluctuations and increased self-manufacturing costs from our previously planned inventory reduction program, both of which were discussed in last quarter's conference call.

Second quarter 2018 reported and adjusted SG&A as a percentage of net sales were 39.7 percent and 39.5 percent respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 27.7 percent, approximately 85 basis points lower than the second quarter 2017.

Our second quarter reported and adjusted effective tax rate were 33.9 percent and 26.8 percent respectively. This was lower than our expectations, primarily due to (excess) tax benefits from the exercise of equity grants generated during the quarter, along with other discrete benefits.

Let me now shift to a review of our regional and market highlights. Volume points in the United States significantly accelerated in the quarter, increasing 19 percent compared to the second quarter of 2017, building on the positive trends experienced during the first quarter of the year.

In China, we returned to growth in the quarter with a volume point increase of 27 percent, setting a new volume point record for the country.

As a reminder, the large swing in volume point trends from the first quarter is a result of prior year timing related to a price increase in April 2017, which resulted in our distributors and contributors buying extra product in March 2017 in front of the price increase.

We also continued to see positive results from the future star promotion, which provides more economic opportunity to the newer service providers, and have extended this promotion until the end of the year.

Additionally, during the second quarter, we began executing on the previously announced China growth and impact investment program. As a reminder, we are using the approximately \$105 million obtained through previous China government grants to fund this investment program.

The grants were excluded from our adjusted results when received, but some of the spending will be included in our future adjusted results, and some of the spending will not be, depending on the nature of the spending.

And because we expect the spending from this program to be outside the normal run rate of the market, we will identify the spending each quarter until the programs funds are exhausted, so that investors can model it appropriately. Our current guidance excludes any future spending.

During the second quarter, we spent approximately \$3.3 million that we did not include in our adjustments. Normalizing for the spending, our adjusted EPS would have been approximately \$0.02 higher than included in today's press release.

This program will likely include new acquisitions in health and wellness products and companies, expansion of Nutrition Clubs, increasing and improving technology, providing additional research, learning and training, public-private partnerships focused on eradicating obesity, building a stronger Herbalife Nutrition brand, and transforming our business and infrastructure in China to improve the profitability of our distributors.

Turning to Mexico. Volume points grew 4 percent. As a reminder, during the first quarter of 2018, we tested a small volume point value in a few products in Mexico that benefited the comparison in the quarter by approximately 190 basis points.

The Asia-Pacific region reported a 10 percent year-over-year increase, with growth in 11 of 15 markets. While the EMEA region grew 13 percent, setting an all-time record-high volume performance in the quarter and has now reported volume point growth in 33 consecutive quarters.

Let me now move ahead to guidance. Worldwide volume point guidance for the full year 2018 has been increased to a range of 6 percent to 9 percent, reflecting the performance in the first half of the year plus an increase in expectations for the remainder of the year. For the third quarter 2018, we estimate volume points to grow in a range of 8.5 percent to 12.5 percent.

With respect to full year net sales guidance, the strengthening of the dollar over the past 2 months is creating approximately 330 basis points of headwind versus our previous guidance. As such, we expect full year net sales to grow between 8.3 percent and 12.3 percent over 2017.

For the third quarter of 2018, we estimate net sales to be in the range of 9 percent to 14 percent growth, which includes an approximate 300 basis points currency headwind versus the prior year.

Our currency impact for the full year and third quarter both exclude Venezuela due to the hyper inflationary impact of currency rate changes and associated price increases.

The full year reported diluted EPS is estimated to be in a range of \$1.95 to \$2.15, and adjusted diluted EPS guidance to be in the range of \$2.60 to \$2.80, updated from the previous ranges of \$1.98 to \$2.18 and \$2.53 to \$2.73 respectively.

New currency headwinds negatively impacted our full year reported and adjusted EPS guidance by approximately \$0.13 compared to the full year 2018 guidance provided just last quarter.

Third quarter diluted EPS is estimated to be in the range of \$0.40 to \$0.50, and adjusted diluted EPS guidance to be in the range of \$0.58 to \$0.68. Third quarter reported and adjusted diluted EPS include a projected currency headwind of \$0.04 compared to the third quarter of 2017.

We're also slightly lowering our capital expenditure our expectations for the full year to a range of \$100 million to \$120 million. Additionally, third quarter capital expenditures are expected to be in the range of \$30 million to \$40 million.

Full year effective tax rate guidance has been reduced to 28 percent to 33 percent on a reported basis, and 22 percent to 27 percent on an adjusted basis, primarily reflecting the excess tax benefits recognized in the second quarter.

Third quarter effective tax rate guidance is 35.5 percent to 42.5 percent, while the adjusted effective tax rate is expected to be in the range of 27.5 percent to 34.5 percent.

Lastly, I'd like to make a few comments regarding cash, debt and our share repurchase activity. Earlier this quarter, we announced the completion of a \$600 million self-tender offer.

We also recently launched a proposed refinancing of our existing term loan in our revolving credit facilities, which were established in February 2017. The company is currently in negotiations regarding the proposed refinancing and anticipates closing it this month.

The refinancing is expected to consist of bank revolver, bank debt and unsecured debt, although no assurances can be made about the timing, interest rates, tranches or that the financing will be completed at all.

We believe that this refinancing will extend maturities, reduce interest expense and allow greater flexibility on our use of capital. As of the end of

the quarter, we have approximately \$800 million in cash, \$2.2 billion in total debt and approximately \$1.4 billion in net debt.

Lastly, I'd like to thank those investors and analysts that attended our event last weekend, the largest regional event in the history of the company. This concludes our prepared remarks. Operator, please open the line for questions.

Operator: And at this time, if you would like to ask a question, that is star then the number one on your telephone keypad. Again, that is star one. Your first question comes from the line of Doug Lane with Lane Research.

Douglas Lane: Yes, hi. Good afternoon everybody. I'd like to start -- you talked about the strength of the volume points in the quarter, which is really impressive. I think the number that stood out for me was China.

It looks like a record quarter for China as well just -- and yes, it was up a lot and you have funny comparisons, but the absolute number in China was bigger than first quarter of 2017 when you pulled volume ahead. So I think -- I'd love to hear more about what's going on with China and how it got back to such strong growth.

Richard Goudis: Yes, Doug. It was in fact an all-time record in China. I think the growth rates are a little distorted because of the events of last year, right?

So when we had the price increase in April of last year, it pulled a lot of volume into March, which really impacted both first and second quarter last year and the comparisons this year, right? So the growth rates are obviously, you got to kind of neutralize that a little bit.

But the volume's still strong. I think there are a couple of broad-based initiatives that we've implemented. One is the future stars promotion that was our goal of trying to work with their economic activities to some of the newer providers.

That was one. Two is we launched the growth and investment. That's a program that was funded by the grants that came from the government.

We received \$105 million in grants over the last few years. We are now reinvesting that in different growth initiatives. Now we didn't invest a lot in the second quarter, a little over \$3 million I think in the second quarter, but there's a lot more underway.

But I think it just creates some excitement, the fact that we have that in the works. We're also trying to get some deal flow. Who knows when we'll get a deal done, but we're trying to size some products in China, or buy a small company.

And it took us a little while to get some deal flow. So hopefully, something will materialize over time there. But I think overall, just the confidence from our distributors there, they went through quite a bit of change last year when management changed out and whatnot. So I think it's just more stable.

Douglas Lane: And what about social selling there? We -- I think there was some Internet or social selling that was going on, that really didn't get a lot of traction.

And you did have the management changes and I think a change on how you educated people in social selling. What I mean, what does that stand in China? Are you investing in apps and handheld applications and integrating the social media, like you are in the U.S?

Richard Goudis: Yes, I think we're investing in I think it's called WeChatify, which is -- kind of incorporates all of the different social media aspects from a just a business simplification standpoint both from an ordering standpoint the management of customers and whatnot.

So that is something that we hope to have done -- and launched at some time this year. I don't want to say done because those things are never done, but at least launched.

Douglas Lane: OK, thank you.

Operator: Your next question comes from the line of Tim Ramey with Pivotal Research Group.

Timothy Ramey: Thanks so much and congratulations on an amazing quarter. John, I was somewhat confused about what you said on the \$3.3 million spend in the 2Q relative to the China grants.

Did you do not match that by taking it out? Because you said that it would have been -- it would have had a \$0.02 positive impact on EPS, which I assume was adjusted EPS.

John DeSimone: Yes, I'm sorry. It was adjusted EPS. So given that we're going to be spending this money over a period of time, it's going to be a frequent spend every quarter, under the new guidelines on non-GAAP adjustments, we're not allowed -- at least that's the advice we're getting from accounting experts, to actually include it in our non-GAAP results. Yet, this is spending that we believe will not be part of our run rate.

When the revenue came in -- when the grants came in, it was income from which we excluded from performance. And when we spend that money, we should exclude it from performance, but we can't always do it on a non-GAAP adjustment on the press release. So sometimes we'll be able to. Sometimes, it will be capital. Sometimes it could be an acquisition.

But to the extent that we spend money that's included in our operating results that you need to know is not going to recur, we're going to let you know in the way that I just let you know now. We may even put in the press release in the future because you're going to need to know it, and it's going to fall in different buckets.

Timothy Ramey: Right, OK. So if it's operating, it won't be excluded from adjusted, but it will be called out?

John DeSimone: It will be called out, so you can model it perfectly. Correct.

Timothy Ramey: Perfect, perfect, OK. I was intrigued by the disclosure in the press release that you're evaluating changing volume point metrics and how you're doing that. Is there anything you can say relative to that now? Or what would the goal be? What are you trying to solve for?

John DeSimone: So in some of the emerging markets where you're trying to reach different consumers, you want to have a different price point for your product.

You want to make sure that the distributors don't have to find that many more consumers in order to qualify for the marketing plans. So there could be adjustment to volume points. It's a test, it's not -- there's nothing material at this point.

We tested something in Brazil and we tested something in Mexico, I think those are the two markets. We called out the Mexico piece, which I think represented like 160 basis points impact to the Mexico volume point.

But the concept is to match the economic opportunity with the amount of sales a distributor has to do in some marketplaces, and maybe break away a little bit from having it be globalized. So I actually think it's an opportunity for us, but it's a five year journey.

And it's going to be test, test, test and when we know more about the results of those tests, we'll certainly inform you. And we're doing it in conjunction with our group of leaders in those markets by the way. This is a coordinated plan with our distributors.

Timothy Ramey: OK. And then relative to the lower qualification standard in the U.S. that you adopted in the first quarter, are you able to -- are you able to disaggregate that or do any analytics on what impact that had on the really amazing result in the U.S.?

Richard Goudis: Look, I think there are a lot of things in the U.S. that helped on that, Tim. I think one of them was this new 2k qualification method. I don't have any direct analytics to say what it would have been without the 2k, because you don't know what behavior would have it been without the 2k.

So I think we all believe that it was an idea that came from a meeting working with our distributors together. We know it resulted in tremendous moving of the marketing plan, 44 new pres team in the U.S.

This year, we have more pres team in the U.S. in second quarter than we had in the last six quarters combined. So the results were great. I think it drove activity. And so it's really -- really tough to just separate.

Timothy Ramey: Terrific, thank you.

Richard Goudis: Thanks, Tim.

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

Beth Kite: Excellent. Hello, everyone. I was wondering I guess sort of a little bit of extension of Tim's question there at the end about the U.S. market, if you could just help us to better understand the preferred members.

That looked so strong in the quarter of north of 75,000 incremental preferred members, so just sort of a whole set of questions around that, one, even going back to Q2 of '17, the retention rate of the folks that came in last year, that sort of are you projecting a level like this incrementally in the next couple of quarters?

Sort of what kind of growth rate is embedded in the guidance we have for total company, to think about the U.S. in that regard. And also is the company leading the effort of bringing the preferred members in? Or is this really all just distributor-driven?

And then I guess my last question around that is if you think about up other markets, I would think because it's so strong right now in the U.S., that would be beneficial.

So sort of how do you think about taking that to other markets? What might the lift be -- kind of whole kit and caboodle on preferred members if we could.

John DeSimone: Yes. Beth, this is John. There are quite a bit of questions mixed in there, so I'll see if I can get them all. Let me start by saying obviously preferred member growth was strong. Number of new preferred members in the quarter was up I think 37% over the second quarter last year.

That's not us. We're not out there trying to find preferred members. That's distributors signing up preferred members. I think it's tied to their engagement level which is really high. I think it's tied to them understanding the elements of the changes that were made now, right?

So it just takes time to implement and understand all the different elements of the changes that took place a year ago so that's increased right? Last year you're comparing to a quarter that was one month pre-implementation, two months post implementation. So I'm not sure it was a clean comparison like it will be next quarter.

So that's one. It was strong. It was driven by our distributors. You asked about what it means for the future. Our models and our forecasts definitely puts some emphasis on recent results, but we try not to overweight it. We want to make sure that the trends are there for the long term.

And so we feel good about the trends. That's another question, there was one about I think expanding the program globally and preferred members, we're calling that segmentation. And we're actually active in working with the distributors to create segmentations globally.

We've had a number of meetings, including an all-day off-site with a number of our top leaders just a month or six weeks ago.

We're working with a number of leaders in different markets, whether it be India or Brazil, some APAC markets, some EMEA markets to launch segmentation. I think it's going to be a journey.

We want to make sure we do it right. We were kind of forced into doing it in the U.S. and we had to do it quickly. I think we've learned from that. It might not be done identically.

It might be unique elements locally for different discounts structures and things like that. So there's still a long way to go. But I think there's a lot of demand for segmentation from our distributors and we're trying to react to that demand.

Beth Kite: Oh, perfect. I think...

John DeSimone: I guess look, we can talk about HN-connect, which is Salesforce. And obviously that's something that is a long-term strategic opportunity for us for which we've launched the beta in the U.S.

We've got great reception from it at the (travel ganza) last week. We had over 5,000 people visit the breakouts, or up to 6,500 people in our beta.

And that's something that the rest of the world is going to look to take advantage of. And segmentation is a part of maximizing the tool, and I think it will be a competitive advantage for us over the long term.

Beth Kite: Got it. One more on the U.S., if I may. How is sort of the pressure point, if you will, personal consumption, if you'd even coin it that, trending at this point with the higher levels of spend now coming out I think as of June 1, to the tune of \$35 a month.

Did you see across the quarter your distributors generally spending a higher amount towards that maximum? Is there still opportunity there? Sort of where are we in the evolution of the personal consumption issue?

John DeSimone: Yes, well, I -- I'm not sure I think it's an issue. I think it was an opportunity is the way I'd describe it which is something that people learn more about the operating parameters in the U.S., there's an opportunity there.

I don't know where we are right now. I think we upped it a month and a half ago or something. I don't remember exactly and I just haven't followed it. It's not really that much on my radar screen right now. But I'll follow up with you.

Beth Kite: OK, great. And then finally, it was super helpful when you talked about gross margin expansion, the drivers of that.

I guess is there anything specific to think about in the second half associated to the gross margin expansion or contraction that you'd like us to think about

in modeling? And then also in terms of I think ex-China member payments, the costs came down year-over-year to the 27.7.

In the back half of the year, what -- do you expect any incremental costs that you've use incurred in the first half of the year?

And any particular market that are meaningful? Or I guess just any drivers that might, after the gross margin line, be something to think about for operating margin in the second half?

John DeSimone: Yes. I think first on gross margin, they're really two things. We talked about in the past, how we have negative manufacturing variances hitting in Q1 and part of Q2, and we did.

But we also actually had an FX benefit relative to margin in Q2, because the FX in cost of sales lags net sales. So net sales gets booked every month at whatever the currency is for that month, the average currency; where cost of sales is basically getting booked at what the currency rates were 5 months ago.

So there is a benefit there. I don't expect a material movement in gross margins the rest of the year. I don't know all the details, but those things pretty much offset each other. I expect it to hover here and maybe they'll drop a little bit, but nothing meaningful.

With respect to SG&A, there has been timing or events. Events will be much higher in Q4 than they were last year. Because our largest event, which is our top distributor vacation -- and a meeting that we do before vacation was in August last year.

It's in and November this year, so that's a swing. And usually, Q2 is not a big spend for events like Q3 and Q4 are so you'll see some swings there. Those are things that come to mind.

Beth Kite: OK, perfect. That's it for me then. Thanks very much.

John DeSimone: Thanks, Beth.

Operator: We have a follow-up question from Tim Ramey with Pivotal Research Group

Timothy Ramey: I guess I can't get -- can't let you go without chatting about share repurchase. I assume it doesn't look like you bought any stock, other than the Dutch auction in the quarter.

And I assume that you're somewhat shut down due to the debt deal in the market right now. Is it a fair statement that you don't have anything active there, but could, pending the debt deal?

John DeSimone: Yes, well those are all accurate statements. We don't have anything pending. I think we've been consistent that our next priority was to refinance the agreement credit facility that we entered into last year, which had some restrictions coming in in August. And so we've been working on that. We launched.

We already had a couple of bank meetings. We hope to close that deal this month. As a reminder, until October 15, there's call protection on the first deal, so there's a big penalty of closing before then. So we're timing it to happen after that date, but hopefully this month.

No assurances, but that's our goal. And then really the decision at that point is what we do with the convert that's due next year. Do we plan to pay it off? Do we refinance it? And how does that play into a buyback program? And that's something that we will work on.

Timothy Ramey: OK, thanks.

Operator: There are no further questions at this time. I'll now turn the call back over to Rich Goudis for closing remarks

Richard Goudis: Thank you very much. Listen, the numbers speak for themselves. The pace of change and innovation is accelerating. I think you can hear that. And our teamwork and alignment with our distributors has never been stronger.

We have a special company with a simple but bold purpose to make this world healthier and happier. We look forward to seeing all of you, as many as possible, at our Investor Day in October 31 in New York. Thank you.

Operator: This concludes today's second quarter 2018 conference call up for Herbalife Nutrition Ltd. Thank you for your participation. You may now disconnect.

END