

HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Eric Monroe
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OPERATOR: This is Conference # 5283569

Operator: Good afternoon. Thank you for joining the fourth quarter 2019 earnings conference call for Herbalife Nutrition Ltd.

On the call today is Michael Johnson, the company's Chairman and CEO, Dr. John Agwunobi, the company's co-President and Chief Health and Nutrition Officer, John DeSimone, the company's co-President and Chief Strategic Officer, Alex Amezquita, the company's Senior Vice President of Finance, Strategy, and Investor Relations, 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, we may make forward-looking statements within the meaning of the federal securities laws. These statements involve assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated.

For a complete discussion of risks associated with these forward-looking statements in our business, we encourage you to refer to today's earnings release and our SEC filings, including our most recent annual report on Form 10-K.

Our forward-looking statements are based upon information currently available to us. 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.

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.

A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release submitted to the SEC. These reconciliations, together with additional supplemental information, are also available at the Investor Relations section of our website, herbalife.com.

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 Chairman and CEO, Michael Johnson.

Michael Johnson: Good afternoon, everyone, and thank you for joining us for our fourth quarter 2019 conference call. Before I start today, I really want to express our heartfelt compassion to the citizens of China for the difficult time they're going through.

John Agwunobi, John DeSimone, and Alex Amezcuita will talk about the business impact, but the impact on our employees, distributors, and their families is the utmost concern, and we wish them all the best.

On to the year. 2019 was a record year for Herbalife Nutrition. The incredible momentum we've built resulted in an all-time high in terms of volume points.

And for the fourth quarter, nine of our top 10 countries delivered year-over-year net sales growth. In a moment, John, John, and Alex will take you through the results for the full year and fourth quarter, as well as provide an update on our China business.

As I wrap up my tenure as CEO at our Honors event in March and retire as Chairman and Board member at our Annual General Meeting in April, I just want to state what an honor it has been to work alongside our distributor leaders, our talented corporate management team and our wonderful employees, to serve our distributors and their customers, driving growth of Herbalife Nutrition over the last 17 years. It is truly remarkable how far we have come since we began this journey together in 2003.

Our growth continues to confirm the demand for our products and the value of our distributors. Since 2003, our volume points have increased from 1.5 billion to over 6 billion in 2019.

And that demand has grown around the world as we are now operating in more than 90 countries, up from 58 in 2003. We have the best business opportunity anywhere, and our distributors are succeeding like never before.

The number of distributors in our prestigious President's Team has almost quadrupled from approximately 650 to over 2,500. And the number of distributors in our late Founder's Circle and Chairman's Cup has more than tripled from 21 in 2003 to 67 today.

The value of our distributor leaders, it just can't be overstated. Our distributors today have a better understanding of their business than ever before, with new tools, data, and technology co-designed with them to help them succeed.

In order to support our distributors and their growing businesses, our global employee family has increased from approximately 1,000 in 2003 to almost 9,500 today.

In the product arena, we provided our distributors with more product to meet their customers' needs. Importantly, through our Seed to Feed program, we are

now manufacturing approximately 65 percent of our products in our own state-of-the-art facilities.

From 2003 to 2019, we launched 9,100 product SKUs, with more than 200 of those being new products, including Niteworks developed with Nobel Prize-winning Dr. Lou Ignarro, our sports nutrition line, Herbalife24 that helped us attract a new, younger and active distributor base in our Herbalife skin line.

These products are more accessible to our distributors and their customers than ever before as we've increased our distribution access points from 117 to almost 2,000. And all of this has resulted in our status as a number one brand in meal replacement, the number one brand in weight management as measured by Euromonitor.

On to our brand, where we built a stronger brand through the years with incredible athlete to endorse and use our products, and in some cases, work with our nutrition and fitness experts to achieve peak performance.

This is something we've built from scratch since 2003, and we now sponsor over 200 athletes and teams around the world across a multitude of sports, including our own LA Galaxy and Cristiano Ronaldo.

We also sponsored community and athletic events in the world, including triathlons like the Herbalife24 Triathlon Los Angeles, which we brought back to our home city last year. Well, we're doing it again in May this year, and I can't wait to join distributors and employees for this really spectacular event.

As for our image, we've grown our Herbalife Nutrition Foundation, continuing our mission of providing good nutrition and nutrition education to disadvantaged children around the world.

Since 2005, we've granted more than \$33 million to nonprofits globally and have grown our Casa Herbalife program from six partners to more than 170 today. To say we're proud of our distributors and employees who support the foundation is an understatement.

Our leadership team is stronger, more confident and more ready than ever. And as I highlighted on the last call, our Board of Directors and I have complete confidence the future leaders of this company will continue Herbalife's positive trajectory. As you heard me say 1,000 times before, there's never been a better time to be part of Herbalife Nutrition.

With my good friend John Agwunobi leading Herbalife as CEO, I've never been more confident in the future of our company, not only as a shareholder, of course, but also as a continuing mentor to our company leaders and distributors.

As this great company celebrates its 40th year and enters its fifth decade, I couldn't be more excited about the future. Now let me turn the call over to my good friend and incoming CEO, Dr. John Agwunobi.

John Agwunobi: Thank you, Michael. I've had the honor of working closely with you since I joined Herbalife Nutrition at the beginning of 2016. And one thing that has always been abundantly clear is your passion for this company. That passion has resulted in incredible growth over the past 17 years, as you highlighted in your remarks.

The success of our distributors who are at the heart and soul of this company has been furthered by your vision and your leadership. You have led with integrity and you've brought us to this point in our 40-year history, setting the stage for what I know are exciting years to come.

Because of you, we are improving more lives around the world than ever before through better nutrition and an incredible business opportunity. I know I speak for our distributors, our executive team, our employees and our shareholders when I say thank you for all you have done. Our job now, to use your words, is to continue to build it bigger, better and stronger than ever before.

But before we look forward, let's look back at 2019, starting with our financial results. As you saw from our press release today, we delivered full year volume points of 6.1 billion, a record for the company and a 3 percent increase compared to 2018.

Our performance demonstrates the strength of our geographic diversity as we achieved this record despite challenges in China. Excluding China, volume points for the year grew nearly 7 percent. Three of our six regions and six of our top 10 countries set volume point records for the year.

Today, we also announced sales leader retention results for the last 12-month requalification period ending in January of 2020. The absolute number of sales leaders retained for the year is just under 300,000, the highest in our history. This result is reflective of the ongoing sustainability of our business and the opportunity that we offer to our distributors.

Yes, 2019 was a record-breaking year and we take that momentum with us now as we go into 2020. We have the right strategy on our distributors and our employees are focused on the right priorities.

During the year, we made significant progress on our established growth strategies of product expansion and technology innovation. On the product front, we launched 20 new products and introduced over 480 new SKUs across our markets worldwide. These new products will enable us to better satisfy the tastes, the preferences, and the nutrition needs of our customers worldwide.

From a technology perspective, we developed and ushered in multiple new tools and technologies to increase our distributor to customer connectivity, to enhance our distributor scalability and to improve the distributor and customer experience. But no amount of technology can ever take the place of our distributors.

The personalized advice, service, and support that they provide to their customers is a key point of differentiation. It's what makes us unique. We look forward to providing a more detailed update on our growth strategies on Thursday this week during our presentation at CAGNY in Florida.

Like many other companies, the outbreak of coronavirus has impacted our business on Mainland China and elsewhere in the region. Our first priority is ensuring the safety of our employees and distributors, and we've taken prudent

steps to do so, including limiting travel and postponing meetings where appropriate.

Herbalife Nutrition, together with Herbalife Nutrition Foundation, is supporting relief efforts with a significant donation to Medshare International, specifically focusing on bringing urgently needed medical supplies into that region.

Moreover, we have increased our charitable giving to additional local emergency relief efforts as part of our foundation's work. I'm proud to say that our distributors in China have done the same thing and that their philanthropic giving continues.

The situation in China and around the globe is emerging, and we're gathering data points and monitoring the market very, very closely. The scope and duration of business disruption and the related financial impact from the coronavirus can't be reasonably estimated at this time.

But it could materially impact our consolidated results for the first quarter and for the full year 2020. As such, we will update our guidance for the full year 2020 when we can reasonably estimate the impact on our near-term business results. We remain optimistic, and we're committed to the long-term opportunity in China.

As I prepare to step into my new role as CEO, I'm incredibly excited about the opportunities ahead for Herbalife Nutrition. Since the CEO announcement, I've had the opportunity to travel to many of our key markets, to meet with our distributors, for example, in China, in Korea, in Peru, and across the U.S.

Our distributors are the engine of Herbalife Nutrition. Seeing their enthusiasm and commitment to improving their communities and to changing people's lives through better nutrition and personalized support is one of the things that gives me confidence in our future.

There are millions around the world who still need to hear what we have to offer, and I'm eager for us to continue to unlock the tremendous opportunities that lie ahead.

Working closely with my friend and colleague, John DeSimone, along with our extraordinary team, we will continue to grow our business and help even more people around the globe pursue healthy, active lifestyles and a unique entrepreneurial opportunity. I would now like to turn the call over to John to provide an update on key market performance.

John DeSimone: Thank you, John. I want to once again thank Michael for his countless contributions to the company and the significant role he has played in leading and evolving Herbalife Nutrition into the premier nutrition company that it is today and mentoring me for more than a decade.

We have a very talented and long-tenured management team and together, I believe we are well positioned to drive growth for years to come under John Agwunobi's leadership.

Turning now to the regional performance, where 2019 was highlighted by three regions setting annual volume point records. As we have highlighted before, the geographic diversity of our company is an asset that resulted in a record 2019 despite challenges in China, one of our largest markets.

Excluding China, volume points grew 6.7 percent in the year, net sales grew 6.2 percent and constant currency net sales grew nearly 10 percent. For the fourth quarter, the year-over-year growth rate accelerated to 4 percent from 2 percent in Q3, and we saw a continued improvement in the year-over-year trend in China.

In the U.S., the strength of the business continued in the fourth quarter, with volume increasing by 7 percent compared to the fourth quarter of 2018. We ended 2019 with year-over-year growth in every quarter for the second year in a row. Net sales for the full year of over \$1 billion represents a record high and an increase of over 8 percent versus 2018 for the USA.

Moving to the Asia Pacific region. It continued its record-breaking year, with volume points increasing 17 percent year-over-year and setting another all-time high result. This is the eighth quarter in a row of record high-volume results in APAC and once again, the growth was very broad-based.

The two-year stacked volume point results for the fourth quarter was 53 percent. The growth rate in the region was led by India, Indonesia, Vietnam, Malaysia, and South Korea, all of which grew by double digits.

India volume increased by 24 percent during the quarter, where we have continued to focus on improving the access for distributors in Tier 2 and Tier 3 cities by increasing the number of access points.

In the fourth quarter, the number of access points, including third-party drop-off points, increased to over 1,600, which is more than double the number we had in Q4 2018. Vietnam volume points increased 30 percent for the fourth quarter, closing out a very successful 2019 with growth of 37 percent compared to 2018.

Indonesia volume was up 27 percent, Malaysia was up 29 percent, and Korea was up 12 percent. For the full year, net sales in the region increased 18 percent. Full year net sales of \$1.25 billion represented the largest year for any single region in company history.

Turning to Mexico. Volume points were down 4 percent in the quarter but net sales actually increased 2 percent. For the full year, net sales increased 1 percent as currency neutralized in the region and our ability to take price increases offset a decrease in volume of 4 percent.

Looking at South and Central America, volume points declined 6 percent, which was in line with the decline from a quarter ago. We saw a sequential improvement in trends in Brazil along with over 34,000 new preferred members joining during the fourth quarter. Since the launch of segmentation in

Brazil, we have seen approximately 75 percent of sign-ups join as preferred members. The improving trends in Brazil were offset with softness in Argentina, Ecuador and Bolivia, all of which are experiencing economic challenges at a macro level.

Turning to EMEA. The region continued its pattern of consistent growth, which now totals 39 consecutive quarters, increasing 3 percent during the quarter. EMEA ended the year with full year volume point growth of 6 percent and local currency net sales growth of 8.5 percent.

Both net sales and volume points were record highs for the region in 2019. For the year, the increases were very broad-based, led by Russian-speaking markets, South Africa, and Spain.

Turning to China. Volume points decreased 13 percent, an improvement in the trend from Q3, which had declined 19 percent. As we mentioned on last quarter's call, in response to last year's 100-day campaign when sales meetings were curtailed, we launched a personal e-store on WeChat at the beginning of Q4.

This new technology was designed to give service providers and sales reps another platform to sell products so they would be less dependent on meetings and nutrition clubs.

It comes with some features such as Instant Pay, which allows our sales representatives with the ability to receive their rebates in a matter of days instead of at the end of a month. Since its launch, approximately 30 percent of total volume in China has come from the personal e-store.

Looking into 2020, as John Agwunobi said in his opening remarks, the safety and well-being of our customers, service providers, sales reps and employees, and their families are the top priority.

And as such, we have taken a number of prudent steps to do so, including limiting travel and postponing meetings where appropriate.

And while the duration of the business disruption from the coronavirus cannot reasonably be estimated at this time, many of the new initiatives implemented last year, like the personal e-store, combined with an incredible pipeline of new products planned in China and our continued investment in the market through our China growth and impact investment program, should help

benefit our service providers, sales reps, and their customers throughout 2020. I will now turn the call over to Alex to provide an update on the financials.

Alexander Amezcuita: Thank you, John. Fourth quarter net sales of \$1.2 billion represents an increase of 3 percent on a reported basis compared to the fourth quarter in 2018, which included growth in nine of our top 10 countries.

Full year 2019 reported net sales of \$4.9 billion were approximately flat on a reported basis, but adjusting for foreign exchange impact, net sales for the year increased 3 percent, and excluding China, local currency net sales grew almost 10 percent for the year.

For the fourth quarter, we reported net income of approximately \$56.7 million or 40 cents per diluted share. Adjusted earnings per share of 74 cents included expenses related to the China growth program of approximately \$9 million or 5 cents per share. This was above the high end of our guidance range of 68 cents. The impact of currency fluctuations represented a year-over-year headwind of approximately 4 cents

Reported gross margin for the fourth quarter of 81.2 percent increased by approximately 20 basis points compared to the prior year period. Note that the incremental but now discontinued tariff in Mexico that negatively impacted our gross margin earlier in the year is no longer a headwind.

Fourth quarter 2019 reported and adjusted SG&A as a percentage of net sales were 43.3 percent and 39.9 percent, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 30.5 percent, approximately 50 basis points unfavorable to the fourth quarter 2018, which was largely due to the timing of certain year-end accruals.

Our fourth quarter reported effective tax rate was approximately 29.2 percent, and our adjusted effective tax rate was 16.5 percent, which was materially lower than our expectations. This was primarily driven by discrete tax benefits of approximately \$11.4 million or 8 cents per share.

Turning to the full year. 2019 reported net income was \$311 million or \$2.20 per diluted share compared to reported net income of \$296.6 million or \$1.98 per diluted share for the full year 2018.

2019 adjusted diluted EPS was \$2.82 per adjusted diluted share, which includes expenses of approximately \$19 million or 10 cents per share related to the China growth program, as well as approximately 34 cents per share headwind from foreign currency. On a constant currency basis, adjusted earnings per share grew approximately 10 percent compared to 2018.

Our full year adjusted tax rate of 25.3 percent benefited by \$5.8 million or 4 cents per share due to excess tax benefits from the exercise of equity grants. As you just heard from John, we cannot reasonably estimate the impact of the coronavirus on our 2020 consolidated financials at this time.

Had it not been for coronavirus, we would have largely reaffirmed our prior guidance for the full year 2020. However, given the material impact that the coronavirus could have on our consolidated financials, we will update our 2020 guidance once we have a better understanding and can reasonably estimate the impact.

Related to the balance sheet, during the fourth quarter, we announced an amendment to our existing \$743 million Term Loan B credit facility that reduces the interest rate by 50 basis points. Excluding the cost of the transaction and future principal payments, the lower interest rate will save the company approximately \$20 million in interest costs through maturity.

Continuing to improve our capital structure remains a key focus as part of our overall strategy to deliver value to our shareholders. We currently have \$839 million of cash on hand and \$1.5 billion in our share repurchase authorization. This concludes our prepared remarks.

Operator, please open up the line for questions.

Operator: At this time, if you'd like to ask an audio question, you may do so by pressing "star" followed by the number "1" on your telephone keypad. Again, that's "star" "1."

Our first question is from the line of Doug Lane from Lane Research. Doug?

Doug Lane: Yes. Hi. Good afternoon, everybody. Talking about the FCPA, I know you didn't mention it, but I noticed in your commentary in the 10-K that you put a dollar figure in there of \$40 million. How should we read that? Does that show movement on the FCPA front? And what about timing of ultimate settlement?

Alexander Amezquita: Hey, Doug. Thanks for the question. So the accrual that you see in the FCPA disclosure doesn't indicate a time line. It doesn't indicate where we might ultimately land. It is simply an artifact of the discussions that have continued to progress. It triggers accounting principles in which we have to record that accrued liability.

And so we'll continue to have our discussions with the SEC and DOJ. All of the outcomes, please look at the FCPA disclosure as we've outlined it to see what the possible outcomes may be, but the accrual doesn't necessarily imply any specific outcome at this point.

Doug Lane: OK, thank you. And shifting to the financial statements here. One, I just wondered the – I noticed the SG&A as a percent of sales was up 140 basis points from the third quarter.

And I know it can be lumpy from quarter-to-quarter, but I just wondered why there was the big increase in the fourth quarter as a percent of sales on a sales number that was pretty good, probably at the upper end of expectations versus the third quarter?

Alexander Amezquita: So Doug, again, you're talking about the Q4 specific SG&A?

Doug Lane: Yes, (Q4).

Alexander Amezquita: Yes, if you look at Q4 '19 versus Q4 '18, there was some year-end accruals. One went in one direction last year. The other went in the other direction this year, so it created about a \$19 million difference in year-end accruals.

It doesn't really impact the full year SG&A as a percentage of net sales, but it does impact the quarter when you're looking at it year-over-year. So there's nothing fundamental or systemic going on in that number.

It's really more just a timing issue. And so if you look at how that kind of evens out for the year, you're going to see SG&A as a percentage of sales effectively flat '19 over '18.

Doug Lane: OK, that's helpful. And just one last thing. With the big move in the tax rate, and you're saying that you largely would have reaffirmed your outlook for 2020, does that include the tax rate outlook for 2020 so that that fourth quarter was really a one-off and really didn't change your structural tax situation looking into 2020?

Alexander Amezquita: Yes, that's correct. It doesn't really affect our structural tax rate. What you saw in Q4 was a number of onetime items. They just – some of them happen to be very large and hit in Q4.

But as you know, we typically, every year, have a basket of onetime items. It just happened to be particularly large this year and it had to be particularly large in Q4. That's what really impacted the rate for – going forward, and again, as you noted, had we reaffirmed guidance, our tax rate for 2020 would have largely remained unchanged.

Douglas Lane: OK, thank you.

Alexander Amezquita: Yes.

Operator: And our next question is from line of Steph Wissink from Jefferies. Steph?

Steph Wissink: Hi. Good afternoon, everyone. I just had a follow-up question on Doug's question regarding the FCPA. Can you just remind us what the accounting process is or the rules related to the accrual? Is it some sort of reasonable likelihood or ability to estimate? Like what trips or triggers the ability to include that level of disclosure in your filing?

Alexander Amezquita: Hi, Steph. Thanks for the question. Yes. Unfortunately, when you go through the accounting steps to arrive at the accrual, it's really based on the facts and circumstances of the discussion of the case.

So I can't – I can't really disclose what those – I can't really disclose what conversations are actually taking place that caused those accounting rules to trip. So unfortunately, really what we have in the disclosure is all we can really say, and we're just following U.S. GAAP principles here.

Steph Wissink: OK, fair enough. And then two bigger picture questions on technology and new product initiatives. I know this is something that's been kind of underlying some of the headlines.

But if you can just give us an update on some of the technology platform rollouts across your major regions, and then some of the new product initiatives we should expect from here over the next 12 months or so, particularly as we look at some of your growth markets of the world.

John DeSimone: Yes. So I mean, one of the biggest technology initiatives we put in place, coming out of the 100-day campaign, was some of the distributor to customer technology in China specifically.

And so that was a significant investment we made in 2019 or began to make in 2019. It's still ongoing. That project is very much in the middle of its rollout of different features and capabilities.

But what we're seeing is – and particularly in light of the coronavirus situation, we're seeing our distributors adopt that technology and really figuring out another way to go to market, which has been helpful. It's all very much still in its infancy, but I think the progress of that technology implementation is really encouraging, and we're going to look to continue to update on that progress.

I think generally, for the rest of the world, in the U.S. in 2019, we put in a productivity tool for distributors and nutrition clubs.

And then more broadly, just rolling out our toolkit, what I would call as our core technology toolkit, which is available in a lot of our larger markets but really rolling that into our Tier 2 and Tier 3 markets so that every distributor in every country has a core set of tools, and that continues to roll out and it will continue to roll out in 2020.

So just overall, I think you'll – that will contribute to just productivity and making sure distributors have a good way to go about doing their business. What was – and then you mentioned something on the product standpoint?

Steph Wissink: Yes, just expectations or messaging you want us to hear regarding product innovation and product initiatives above and beyond your core assortment.

John DeSimone: Right. So the product initiatives again, we're really focused on choice. We're focused on products, whether that be in sports nutrition, targeted nutrition or even weight management, in the weight management category, where it's choice around clean label or a choice around different distributors and how they react with their customers and their local market in the way that they want to speak.

It's about choice in giving that option. So some of these products might be door openers to get into our core products or some of it might be giving offerings that our distributors have a way to talk to a customer that they haven't been able to.

So yes. And maybe, John ...

John Agwunobi: Yes, let me just add into actually both of those. So you asked, obviously, two of the core – you asked questions about two of our core strategies, right? So technology, of course, it's about creating scale for our distributors to do more without losing the connection they have with customers, and Alex talked about a lot of those key initiatives.

On the product side, Alex gave you a lot of examples of things we're doing. I think another one to keep in mind that's really going to drive an acceleration of launches is the localization of product and the pushing out of the resources into the regions to develop the products as their particular market needs,

whether it's flavors that are unique to a particular region or health and wellness products that are unique to a particular region. So it's less of a global approach than it's been in the past and more of a local approach.

Steph Wissink: Great. Thank you.

Operator: And our next question is from line of William Reuter from Bank of America. William?

William Reuter: Good afternoon. The first is just to follow up on that last question about localization of products. Where are you in that process now in terms of trying to get product that is unique for a region versus products that are generally available across all your regions?

John Agwunobi: So it's a process. In some regions, we're further along than others. I can tell you that in China, for example, it's done, all right? China has its own R&D center now, very localized. In other regions, they are developing the resources and certainly working with our local distributors.

We are, I think, far along in the journey. I think a little bit more on the resource side needs to be done, but I think culturally, within the product development group and the teamwork done with the distributors, we (inaudible). So it's just a matter of getting the right resources.

William Reuter: OK, that's very helpful. And then I understand that it would be impossible to try and gauge the impact of coronavirus on this year. But I guess, are there certain regions where you do have clubs that continue to operate? Do you have any even thoughts on when you may have some clubs that are beginning to open again?

John Agwunobi: Well, look, it's tough to know. A lot of the clubs aren't operating right now, just like most of the restaurants aren't because people aren't physically going into locations like that.

And so those distributors have moved over to the online platform. We've seen – actually, we're comping a pretty easy scenario with the 100-day campaign last year.

And we are seeing activity levels actually higher than a year ago and actually new sales leaders higher than a year ago, but don't really know where this will end up because the situation is not over. And so we (don't want) all the dominos to fall exactly on what this – how this plays out over the medium term.

But with respect to clubs, it's somewhere – maybe it's 80 percent of our clubs probably, somewhere around there, right now aren't open. So there are some clubs that are performing OK, but most of them right now aren't – the customers are just not coming in, and they're not opening.

William Reuter: That makes sense. And then lastly, in your prepared remarks, you used the word improve around your capital structure. I guess, when you think about improving it, what does that mean?

I think your leverage target had been three times, so I would assume that might mean something to increase your leverage, but there's obviously a lot of uncertainty. So I don't know if the coronavirus changes that thought.

John DeSimone: No, the coronavirus doesn't impact our capital structure thoughts. Our target gross leverage is around three times. We do have capacity and we continue to monitor the capital markets, in concert with just overall being – having an efficient capital structure.

So you could envision sometime during 2020, we may – we may be out in the market looking to fill that gap to get our target leverage back up – or get our leverage up to that target level. So that's certainly one of the reasonable expectations, but obviously, that's an execution question. And we just have to make sure that we're doing it at the right time.

William Reuter: Great. I'll pass to others. Thank you.

John DeSimone: Yes.

Operator: Once again, ladies and gentlemen, if you'd like to ask an audio question, you may do so by pressing "star" followed by the number "1" on your telephone keypad. Again, that's "star" "1."

And our next question is the line of Hale Holden from Barclays. Hale?

Hale Holden: Hi. Thanks for taking the question. I had a couple of quick ones. Are you still manufacturing in your facility in China and/or would we expect any potential shortages from that facility to the broader Asian region?

John DeSimone: Yes. So we are now manufacturing. I mean, we were down for a couple of weeks during the extended China New Year's. I think as of the 14th, as of late last week, our factories opened.

Not every employee is in but certainly enough to keep production going. So we're in a pretty good spot there. That includes the two local manufacturing facilities in China plus the extraction facility in China.

Hale Holden: Great. And then you had also mentioned in the prepared remarks the potential for geographic weakness, I guess, beyond China? Is that something you're seeing now or is that just a level of caution?

John DeSimone: Well, I mean, we're certainly postponing some meetings in some areas of Asia. Sometimes, you got to make those calls early, and so out of abundance of caution, there are meetings being canceled.

Cancel's the wrong word. They're being postponed. They're just being pushed out to later in the year, and that could have an impact, but it might not have an impact. So given that we're not sure yet how this plays out, we're being cautious in our guidance.

Hale Holden: OK. And then my last question was, I was wondering if, in the quarter, Mexico turned out to your plan and any thoughts on how that market is doing.

John DeSimone: So it turned out pretty close to our expectations. It had a slight improvement in trend versus Q3. Net sales on a local currency basis, we were down 1.5 percent. On a reported basis, it was actually up 1.7 percent.

So it's tracking with expectation as we said last quarter. The objective now in Mexico to get the market back on track is more recruiting. That's the way the weakness has been for about a year now, and that's where the focus needs to be to recover. But nothing's materially different than we had thought a quarter ago.

Hale Holden: Great.

Operator: And at this time, I'm showing that we have no other questions, so I'd like to turn the call back over to Michael Johnson for any closing remarks.

Michael Johnson: Thank you very much. When I began my Herbalife journey in 2003, I had a wonderful mentor who reminded me that few get a platform like we have at Herbalife.

I then – and today, I see Herbalife through four buckets, our product, our business opportunity, our brand and our image. In March, we celebrate 40 years of enhancing and enlarging each of those buckets. And this February, we celebrated and celebrate our founder, Mark Hughes.

Mark had a very simple yet incredible vision – change the nutritional habits of the world and give people an opportunity to earn what they're worth. That vision has grown into a multibillion international company that is fueled by the passions of distributors and employees who are proud to be Team Herbalife.

Let me close by expressing my gratitude. Following Mark Hughes in leading this company for the last 17 years has been the ride of a lifetime, and the success we've achieved together has been really nothing short of exhilarating.

I want to thank our distributor leaders, our distributors and our employees, all of whom I adore, for the support and encouragement you provided me along the way. And to our Board of Directors and long-term shareholders, thank you for your faith and trust for hanging in there in the good times and in the tough times.

During the past 17 years, we've generated substantial cash flow and returned approximately \$5.1 billion of capital to our shareholders, and we continue to keep you in mind every day as we continue to grow our business together.

I now take my place alongside shareholders like you on this call as an enthusiastic, long-term investor, knowing that the best of Herbalife is ahead and we are just getting started. So thanks for all your support through all the years.

Operator: Ladies and gentlemen, thank you for joining us for Herbalife's Fourth Quarter 2019 Earnings Conference Call. You may now disconnect.

END