HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Alan Quan
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Operator: This is Conference #84399723.

Operator: Good afternoon, and thank you for joining the Third 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 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 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 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.

Rich Goudis: Good afternoon, everyone, and thanks for joining us this afternoon. As we've said throughout 2017, this is an important transitional year for our company as we implement and adapt to changes in the way we do business in the United States. The good news is that we believe we pivoted during the third quarter, and we're looking forward to anticipated sequential improvements in volume trends in the fourth quarter and in 2018.

What's really exciting is that we are now developing plans to use key elements of this transition to strategically transform our business over the coming years. We are beginning to leverage new tools to enhance consumer predictive analytics to improve performance, accelerate innovation and invest in our most competitive advantage, our distributor difference. We are all eager to close out 2017 in the next few months, build off the 2017 base and return to growth in 2018.

OK, let's talk more about the third quarter. During the third quarter, we saw an improvement in the direction of our year-over-year volume point performance in 5 of our 6 regions compared to our second quarter results, which is encouraging and is an indication that our strategies are beginning to have an impact. Importantly, after our North American business adjusted to the changes implemented early this year, our business has been stable, and we believe we will now build off this new base. Key to building off this base and returning to growth throughout 2018 is the combination of the growth platform provided to us by the global megatrends of obesity, rising health care costs and the increased interest in entrepreneurship combined with 4 Herbalife nutrition-specific strategies. Our focus will continue to be on leveraging technology, creating a culture of innovation, accelerating the launch of new products and investing in education and training to strengthen our distributor difference, all of which are at the forefront of our comprehensive strategy to drive future growth for our company and our distributors. And I couldn't be more excited as we are already seeing this strategy come to life throughout our business. Let me share some examples with you.

Emerging from many of the technology investments we've implemented to comply with the FTC order, such as our point-of-sale tools, is a key initiative to use these new technologies for predictive analytics to improve the economic value of customers for the benefit of our distributors and the company. Additionally, we will begin testing the robust capabilities of the Salesforce.com platform in North America early next year to help our distributors better engage and service their customers. Since our last call, we have been working with Salesforce and our distributor leaders to develop a seamless platform that we believe will increase lead conversion and share of wallet while extending the lifetime value of our customers. We already have a unique competitive advantage in this effort due to the millions of receipts being submitted to us every month in the United States, which have given us a new level of insight into customer behavior.

Leveraging this data through the Salesforce platform will enable us to enhance the distributor/customer relationship by creating personalized communications, anticipating customer needs based on purchase history and making recommendations for nutrition products that complement those already in the customers' shopping baskets.

Technology is also a key component of our focus on creating an innovation culture throughout all levels of the company. As we announced on the last call, we've appointed a Chief Innovation Officer who is focusing on leveraging the company's vast network of employees and distributors to bring new creative ideas to all areas of our business. In September, we tested what we're calling the greenhouse using idea management and crowdsourcing software that will harness the collective diverse thinking of our employees worldwide through specific initiatives. The test exercise, which was open to

400 of our employees, generated 200 ideas and 13,000 engagements, resulting in 70 ideas that will be further assessed and prioritized. This single exercise demonstrates the power of the tool and the collaboration it encourages. Our goal is to have all employees worldwide train on this tool by the end of this month.

We're also leveraging digital technology and the online committee trends to promote health and well-being. In addition to our current Facebook live events, featuring our experts in fitness and nutrition, we are preparing to launch a robust fitness portal where distributors and customers can find workouts featuring numerous fitness professionals. These fitness coaches will lead classes in functional training, yoga, Pilates, dance and even new mom fitness. And lastly, on the topic of technology, this past quarter, we successfully and seamlessly upgraded our single-instance Oracle ERP system to version R12, providing enhanced capacity and capabilities to support our future growth plans.

Another key growth initiative is to advance innovation and product development. Be assured, accelerating product launches over the next 3 years will be a key focus for the company in order to increase trial, expand product usage occasions, increase the size of the addressable audience for our products and provide our distributors and their customers with more choice than ever.

Part of this innovation process includes unleashing the creativity of our experts in R&D. We recently created a monthly concept café, where we present exciting new product prototypes for on-the-spot evaluation utilizing our internal scientific talent along with the expertise of our global network of leading ingredient suppliers. We'll begin to see the results of this new process in the second half of 2018, and we believe it will fundamentally increase our speed to market for new and innovative products in the future.

Let me share some of the highlights of our new product launches this quarter. Similar to what many CPG companies have done, we are introducing new sizes of some of our best-selling products to generate excitement, increase trial and create additional usage occasions. Recent new introductions include Protein Bites, a snack size version of one of our top 10 products, our Deluxe bars, that we introduced as a healthier snack for Halloween and the upcoming holiday season. These Protein Bites are 70 calories and contain 4 grams of protein. We also introduced the first-ever trial size of our top-selling meal replacement, Formula 1, which has historically been sold only in serving sizes of 22 to 30. In October, we introduced a smaller format for the holidays, a variety pack featuring holiday flavors in a smaller 10-serving size canister.

To provide more protein shake choices for our customers and to appeal to a larger, more affluent audience, we are launching our Pro-20 Select water mixable shake in EMEA next month. This product leverages current and growing trends in the natural food and beverage markets as it does not contain GMOs or any artificial ingredients. It also caters to the demands of the growing and highly valuable well-being customer segment, those looking for fewer ingredients and less sugar. We expect to increase our focus on this important consumer segment by rolling out similar products in many of our global markets in the future.

In Brazil, we launched a soy protein alternative to semi-skim milk called Nutri-V. Our product is lactose-free, contains fiber and has the same taste and texture as milk. Our Nutrition Club owners, a key growth segment for us in Brazil, can now purchase Nutri-V from Herbalife Nutrition instead of purchasing powdered milk from other manufacturers. This initiative is similar to what we did in Mexico a few years ago, where we developed and launched Extra Shake as an alternative to the yogurt our distributors were blending into their shakes. Just like with the Extra Shake in Mexico, we hope Nutri-V will become a top-10 selling item in Brazil and help drive organic growth.

Also to support the growth of Nutrition Clubs in Brazil, we are launching a larger package size of Formula 1 that will allow Nutrition Club operators to better serve their customers in a way that is more efficient. The 80 serving size, which is packaged in a stand-up pouch, will be available in the first quarter of next year. The addition of both of these new items in Brazil is an example of how we are prioritizing product development to enhance the profitability of our distributors.

In other exciting products news, last month, we accelerated our journey into personalized nutrition through genomics with the beta test of Herbalife Nutrition Gene Start test kits in a strategically important market of South Korea. This kit is designed to attract new customers and extend the lifetime value of existing customers by giving our distributors new tools that will enhance their ability to offer personalized nutrition, products and healthy lifestyle advice to their customers who want more control over their health and nutrition.

As part of the launch, senior distributor leaders in South Korea received training and nutrigenomics testing from Dr. Agwunobi, Our Chief Health and Nutrition Officer, who helped oversee the development of Gene Start. We expect the full market launch will occur in early 2018.

We are working more closely with our distributors than ever before to broaden our product offering and provide a complete portfolio that meets the needs of more customer segments. We're excited about our collaborative efforts to accelerate innovation, offering customers personalized nutrition products delivered through our highly trained, educated and motivated entrepreneurial distributors.

Collectively, we are creating a foundation for what we believe is the most powerful way to improve people's lives at a time when it's more critical than ever, given the megatrends such as obesity. The obesity epidemic continues, gives rise to our sense of purpose and at the same time, provides us with a tremendous opportunity for growth. It seems like we hear more staggering statistics every day. It's cause for alarm when you read that the prevalence of obesity has doubled in more than 70 countries just since 1980.

A recent article in the New York Times headlined "How Big Business Hooked Brazil on Junk Food" says obesity exists in places that struggled with hunger and malnutrition just a generation ago. The article goes on to say that the cheap processed foods being made widely available is killing us and the head of the research and development at the global food company even concedes that obesity has been an unexpected side effect. He said, and I quote, "We didn't expect what the impact would be."

Just amazing. And yet another recent example released by the CDC's National Center for Health Statistics shows that adult obesity rates in the U.S. have hit a new high. Nearly 4 out of 10 adults were considered obese in 2015 to 2016, a 30 percent increase from 1999 to 2000.

In talking about the epidemic, an associate professor at John Hopkins said the traditional public health efforts centered on communicating messages about what is healthy in the hopes of changing people's behaviors are not working. These brief examples confirm the importance of our distributor difference. Our unique distribution channel gives us a competitive advantage in selling nutrition products. We provide a rich customer experience delivered person-to-person by our distributors that helps people achieve results through nutrition products, fitness advice and the powerful support of a community of like-minded people.

We recognize this competitive advantage and we will continue to strengthen this distributor difference through our ongoing investments in distributor education and training. Since assuming the role of CEO in June, we've hosted events with more than 120,000 of our passionate entrepreneurial distributors in eight countries, including India, Hong Kong, Brazil, Russia, Spain, Mexico, Thailand and the U.S. Without exception, we've seen engagement and momentum continuing to build. Our distributors around the world are committed to our shared goals of improving nutrition and growing their businesses in a way that we believe is sustainable over the long term.

Along with the strategies we've shared with you today, their enthusiasm and purpose-driven approach is what reaffirms for me what we've been saying to them, there's never been a better time to be part of Herbalife Nutrition. Five years from now, I believe we'll look back and see how 2017 was an important year of transition when we successfully implemented significant changes and then leveraged them to transform our company. Events over the past 5 years have been a catalyst for us to take a more customer-focused, technologically advanced and innovative approach to building our distributor-led business, embracing global megatrends and pursuing our purpose to make the world healthier and happier.

We remain focused on being good stewards of our capital, understanding the rich cash flow model of our business and always seeking ways to enhance our capital structure to accelerate returns to shareholders. As we look to the future and as we continue to strengthen our platform through the end of 2017, we believe 2018 will be a year of growth for us. We remain committed to generating value for our shareholders and, as always, are presently considering all options on how best to accomplish this core objective in both the short and long term.

I'll now turn the call over to John to discuss the third quarter financial performance.

John DeSimone: Thank you, Rich. Let me first apologize for my voice. I'm powering through a cold with some laryngitis. Today, I will start by discussing the company's third quarter 2017 reported and adjusted results, which will include key market highlights. I will then review our fourth quarter and initial full year 2018 guidance and then conclude by providing a brief update on our share repurchase program.

Net sales for the third quarter were $1.1 billion, which represented a decrease of 3.3 percent on a reported basis and a decrease of 4 percent on a constant-currency basis compared to the third quarter of 2016. Volume points for the third quarter of 2017 were 1.3 billion, a decrease of 5.6 percent compared to the third quarter 2016, which represents a sequential improvement over the 8.1 percent decline experienced in Q2. Reported net income for the third quarter was $54.5 million or $0.66 per diluted share compared to a reported net income of $87.7 million or $1.01 per diluted share for the third quarter of 2016.

Adjusted diluted EPS for the third quarter was $0.82 per diluted share compared to $1.21 per diluted share for the third quarter 2016. The reduction is due primarily to higher interest costs from the debt deal done earlier this year without much benefit from the buyback, as the tender executed in October is a Q4 event, plus the timing of events noted in the last quarter's earnings call in the reduction volume. The adjusted EPS figures continue to exclude items we consider to be outside of normal company operations but we believe will be useful to investors when analyzing period-over-period comparisons of our results.

Please refer to our third quarter 2017 earnings press release for additional details on these adjustments. Currency in the third quarter was a slight benefit to net sales but continued to be a significant headwind for EPS and margins in the year-over-year comparisons primarily due to country mix and the timing of when goods are manufactured compared to when they are sold.

Essentially, currency movements are realized in net sales in the period in which such currency movements occur, while with respect to cost of goods sold, currency movements are realized a quarter or 2 after they are incurred.

Reported gross margins for the third quarter of 80.2 percent decreased approximately 120 basis points compared to the prior-year period. This decrease was driven primarily by the impact of foreign currency fluctuations as the result of the timing difference I just described.

Third quarter 2017 reported and adjusted SG&A as a percentage of net sales were 41 percent and 40.3 percent, respectively. Excluding China member payments, adjusted SG&A as a percent of net sales was 31.2 percent, approximately 190 basis points higher than the third quarter of 2016, primarily driven by the timing of promotion and event costs discussed on our last quarter's conference call. As a reminder, we previously communicated that the second quarter's comparison benefited from the timing of promotional event spending at the expense of quarters 3 and 4.

Additionally, a major distributor event occurred in the third quarter this year as opposed to the fourth quarter in 2016. Our third quarter reported effective tax rate was 32.6 percent, while adjusted effective tax rate was 29.3 percent. This rate was higher than expected due to the new full year projection of country mix and the timing of discrete events. As you know, tax rates are based on full year projections. Accordingly, when the full year projections change in Q3, the year-to-date rate includes a true up for both Q2 and Q1 in addition to Q3.

Shifting now to our regional and market highlights. In the U.S., our volume points were in line with our expectations. And while it was down 17 percent year-over-year in the quarter, the trend improved compared to Q2. And as Rich said, after our North American business adjusted to the changes implemented earlier this year, our business has been stable, and we believe we can now build off this new base.

We currently expect to see volume growth in North America in Q2 2018 once we annualize the changes made earlier this year. As discussed last quarter, the U.S. has implemented programs to encourage activity, and we're beginning to see some benefits as evidenced by a 9 percent sequential increase in new distributors compared to Q2.

Turning to Mexico, volume points were down 9 percent in the third quarter versus 6 percent in Q2, which was lower than expected. Approximately 40 percent of our business in Mexico takes place in states affected by the recent earthquakes. We believe these earthquakes had an approximate 200 basis point negative impact on our volume results in the quarter, and this impact carried into the beginning of Q4. In China, Q3 volume points were down 4 percent, in line with our expectations. As expected, the government's general limitations on companies conducting commercial meetings ahead of the People's Congress had an impact in the quarter, limiting distributor activities designed to motivate, educate and present our products and business opportunity to prospects in China. Despite these restrictions, Q3 had the highest number of average service providers with volume points in the country's history. Overall, on a worldwide basis, trends in the year-over-year comparisons improved in 5 of 6 regions, with Mexico being the only exception.

Looking ahead to guidance. For the fourth quarter of 2017, we estimate net sales to grow between 2.3 percent and 7.3 percent, which includes approximately 300 basis points in currency tailwinds. The net sales growth is reflective of an expected volume point change in the range of down 4 percent to growth of 1 percent.

For EPS, excluding the potential impact of any future share repurchase, fourth quarter reported diluted EPS is estimated to be in a range of $0.64 to $0.84, and adjusted diluted EPS guidance to be in a range of $0.84 to $1.04. Fourth quarter EPS guidance includes a projected currency benefit of approximately $0.04 per diluted share versus the fourth quarter of 2016.

Full year reported diluted and adjusted diluted EPS guidance has been narrowed to a range of $3.90 to $4.10 and $4.42 to $4.62, respectively. The impact of shares repurchased as part of our tender offer in early October, which I will discuss in more detail shortly, will raise 2017 reported and adjusted EPS guidance by $0.08.

Full year 2017 currency headwinds are projected to be approximately $0.20 compared to 2016 and in line with the impact included in our previous guidance. Capital expenditures for the fourth quarter and full year are expected to be in a range of $20 million to $40 million and $88 million to $108 million, respectively.

Fourth quarter effective tax rate guidance is 30 percent to 36 percent on a reported basis and 27 percent to 33 percent on an adjusted basis. Our full year 2017 effective and adjusted tax rates are expected to be in the range of 24.4 percent to 25.9 percent and 22.1 percent to 23.6 percent, respectively.

Moving into guidance for the full year of 2018, worldwide volume points are estimated to grow between 2 percent and 6 percent, with worldwide net sales of 5.5 percent to 9.5 percent growth on a reported basis and 4.3 percent to 8.3 percent growth on a constant-currency basis.

The full year growth rates are hampered by difficult Q1 comparisons that include the North American business operating at a higher rate prior to the implemented business changes in May of this year. Also as a reminder, Q1 2017 includes the timing benefit of volume in China pull-forward from Q2 this year due to a price increase implemented at the beginning of Q2. This item should not have a material impact on the overall full year growth rates in 2018 but does affect the quarterly profiling of volume during the year. Full year 2018 guidance for reported diluted EPS is in a range of $3.82 to $4.22, with adjusted diluted EPS guidance in a range of $4.60 to $5.00.

As typical with our historical practices, adjusted diluted EPS guidance excludes the impact of any future share repurchase and any excess tax benefit from equity exercises, which contributed approximately $0.30 to adjusted EPS in 2017.

Lastly, in regards to cash and our share repurchase activity, in October, the company completed a tender offer for approximately 6.7 million of its common shares at a cash price of $68 plus a CVR per share for a total cash cost of approximately $457.8 million. These shares represented approximately 7.2 percent of the company's total outstanding shares at the time immediately prior to the closing of the tender offer.

Since the inception of the new board approved share repurchase program earlier this year, the company has purchased a total of approximately 11.3 million shares of its common stock at an aggregate cost of approximately $757 million or about half of the authorized amount. The remaining authorized capacity of the company's $1.5 billion share repurchase program is $743 million. At the end of the third quarter, the company had approximately $1.7 billion in cash on hand, which would be approximately $1.2 billion pro forma for the tender offer, which didn't transact until Q4.

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 the number one on your telephone keypad.

And our first question comes from the line of Doug Lane with Lane Research.

Doug Lane: Yes. Good afternoon, everybody. A couple of questions. John, you indicated that the buyback benefited the fourth quarter by $0.08. Do you have a figure for the full year 2008 benefit from the tender?

John DeSimone: 2008? You mean, 2017?

Doug Lane: 2018. No, sorry, 2018.

John DeSimone: Well, it was 6.7 million shares, so, no, I don't have the number off hand, but it's pretty easy to calculate. But I guess what I'd communicate is one of our objectives when we started the debt deal, or when we announced the debt deal, was to buy enough -- back enough stock for it to be accretive next year. We've accomplished that. It does not mean we're done buying stock, obviously. We've got $750 million -- almost $750 million remaining in our authorized buyback program from the board.

But right now, the combination of the cost of the new debt deal for 2018 and the benefit of the entire buyback that's been done so far is an incremental $0.06 of accretion. So we've crossed the line where it's accretive next year, and anything else we do in the future will be just additionally accretive.

Doug Lane: OK, that's very helpful. And just one quick thing on the timing you mentioned on the margins, the gross margins being down sequentially and year-over-year. How many more quarters do you think we have of the FX having a negative impact on gross margins?

John DeSimone: Yes, it will be -- it's about one more quarter. The way to think about it is a 5- to 6-month turn of inventory. So with respect to the FX impact on cost of goods sold, we'll realize that in the P&L about 5 or 6 months after inventory is manufactured. So if you look at movement in Q3, which was really earlier in Q3, that will roll through in Q1 of next year.

Doug Lane: And then once we anniversary that, do we look for favorable gross margin comparisons? Or are there other things going on with input costs or country mix or something else going on there in addition to FX?

John DeSimone: There's only one other thing that's timing that will go on in COGS, and it'll relate to Q1 of next year, which is our reduction of inventory program that we put in place in the third quarter this year. So you'll see a benefit in working capital. You saw a $25 million -- about $25 million -- about a $24 million to $25 million reduction in inventory in Q3 of this year. You'll see that in the cash flow statement, so that excludes any impact of currency. And in Q3 of last year, we grew inventory by around $50 million, so that's a $75 million swing in manufacturing, and that creates what's -- we call it manufacturing variance, so less of a favorable variance this year, which will roll out in Q1.

So from a comparison of Q1 of '18 to Q1 of '17, you've got this timing of manufacturing variances from the inventory reduction program. But once you get through Q1, that's over, and you'll start seeing benefits in gross margin in Q2.

Doug Lane: OK. Thank you.

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

Tim Ramey: Good morning, thanks so much. So it looked to me, the way the quarter came in, it was very close to my expectations but for the tax rate that you put out at roughly 20 percent to 22 percent on October 2. And you mentioned in your prepared remarks, John, that that related more to other discrete items, not ASU 2016-09 issues that affected the full year projection. Can you tell us what impact ASU 2016-09 might have had on the full year in terms of percentage points of tax rate? You said -- I think you said $0.30 in EPS.

John DeSimone: Well, for the full year, it's about 550 basis points.

Tim Ramey: 550, OK.

John DeSimone: 550 basis points. To your other point about the tax rate for the third quarter, the way the tax rates work is, according to GAAP, is you project based on items that you're allowed to project full year rates, and then you book the year-to-date quarter at that full year rate. And so once we finished our forecast, which was later in October, for the rest of the year, we had a mix issue that increased the full year rate by about 200 basis points from what we thought when we guided earlier in October. But that 200 basis points required a catch-up for Q1 and Q2, so that's why it's a big discrepancy in the Q3 number.

So if not for the tax rate, if the tax rate had come in where we had thought, we actually would've been at the very high end of our previous guidance.

Tim Ramey: Right, it would've been $0.91, yes. Got it. And then this is more of a question for Rich, I think. But it looks to me -- it's hard to say because there's some change in mix, but if we look at new numbers, total company new members and Sales Leaders, there's certainly a positive sequential trend there. How would you talk about that, Rich? Are you comfortable with that? Is it what you want it to be? It's hard to really gauge year-over-year because the business is different year-over-year. What do you think about new member acquisition and Sales Leaders?

Des Walsh: Yes, Tim. This is Des. Let me take that one. So, look, as you know, over the number of years, we've been actually focusing on quality rather than quantity. You've seen that throughout our strategy in relation to Sales Leaders, where we've seen considerable improvement in terms of retention rates, activity rates. And essentially, what we're doing is we're taking that same strategy down one level to our members. So what you're seeing is you're seeing less new members coming in, but you're also seeing greater levels of productivity.

From our perspective, what we're also seeing is we're seeing the impact of some of the promotions and programs that we've put in place. For those of you who have been at our events, you've seen us launch this member activation program or distributor activation program, depending on which part of the world you're in, and we're really, in that, focused on, obviously, bringing new people into the business and having them engage in consistent customer focused activity, and we're seeing that reflected in the trends that we have out there today.

So obviously, we see it as a very positive trend. We actually saw third quarter sequential improve from second quarter, and we're going to see that trend continue throughout the rest of the year.

John DeSimone: Let me add, Tim. This is John. Just a couple of October stats are probably relevant. Normally, we don't give inter-quarter information, but I'll give you one positive, and one negative.

So in the U.S. in October, which is obviously done now, volume points, we're still down, but down single-digits, not double digits. So as we said, with implementation of the FTC settlement had a bigger initial drop and would go up, but the base was stable, and we expect the trajectory to be in line with expectations prior to the implementation, just off a slightly lower base. And so I think, as Rich said, it's really a pivot going on.

In Mexico, there was -- they had 2 earthquakes. There was a significant one on September 19 that had an impact of 200 basis points in the quarter, and that carried into the third quarter, right. So that's only 2 weeks of impact in the third quarter, so that had a bigger impact in October. It's down in the low teens in October. It will get better in November and December as Mexico recovers from that, but that's just another thing to keep in mind. So just I wanted to give you a profiling and give our investors a profiling of those two markets on some changes to expect.

Tim Ramey: Right. And just one more, while I've got you. The attestation that your external monitor needs to make, I think -- is that coming up on the 15th? No reason we should really expect anything there? Should we even expect to see anything publicly released on that date?

John DeSimone: No. No, it's a private report, Tim.

Tim Ramey: OK. All right. Terrific. Thanks for your help.

John DeSimone: Thank you.

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

Mike Swartz: Good evening, guys. Maybe a question for Rich, or Des and John, I believe they're here, but just some of the stabilization that you've started to see in the United States, I think, John, you referred to volume points in October improving. Maybe give us a little more color behind what's driving that, what's taking hold and maybe what we should expect as we go into '18?

John DeSimone: Let me just jump in the first. So obviously, it's an easier comp coming off a lower base from last year. So one of the important points that we were trying to communicate over the last couple of quarters in the U.S., anyway, is that there was a drop in the business with the implementation of the changes that we made, but it was a quick drop and not a slope, and once the quick drop -- quickly bottomed out, and we're slowly building off of that. So the base is stable, starting to grow, and the comps are getting easier.

The only exception to that, of course, is in Q1 of next year -- I mean, it's not an exception, right, but in Q1 of next year, you're still comping the old base. So when we talk about growth in the U.S., it's really a Q2 and forward event from our current expectations (inaudible).

Des Walsh: And just to add some color to that, Mike. So obviously, as always, we work with our distributor leaders and, obviously, recognizing the impact the distractions are going to have in Q2, we sit down with them, we put together a series of promotions, obviously engaged on a couple of things. We're obviously incurring engagement, incurring sponsorship, a focus on bringing more people into the business, and most importantly, having those new people being successful.

So we saw the impact of that in Q3, right. We've reported 9 percent increase in new distributors in Q3 compared to Q2, a significant double-digit increase in terms of sponsors, increased level of engagement. So every key metric in terms of that just is now being reflected in this volume point improvement that you heard John reference in October. And so that's a trend that's obviously already in place and we expect to see it continue.

Mike Swartz: OK. And then just looking at the 2018 guidance, I'm just trying to understand some of the puts and takes in there. It looks like at the midpoint, EPS up 6 percent, that you're looking at 5.5 percent, 9.5 -- to 9.5 percent top line growth. There seems to be a little maybe deleverage there. And I think, John, you said gross margins should get better as we get through the year. So I'm trying to understand what's exactly driving that deleverage.

John DeSimone: What, you were talking about EPS, right, on the EPS line?

Mike Swartz: Yes.

John DeSimone: And did you adjust out -- in this year's adjusted EPS is approximately $0.30 of excess tax benefit from the exercise of options, so you've kind of got to back that out to make it equivalent to our guidance. Now, we'll probably have some of that next year, but we don't guide for it. So I think you'll see the math works out a little better once you adjust for that.

Mike Swartz: OK, so that's the single biggest part of it?

John DeSimone: Yes. I mean, there's a handful of other things, right, so we've got some investments in technology. Some of that is Salesforce; some of it is other technology we're investing in. And one of the strategic shifts that we've been making is moving away from in-house hosting of technology to the cloud, and that does swing the expense from capital to SG&A. It doesn't impact cash flow. We make our decisions based on what's best economically, and the accounting follows. And if the accounting means you record something as OpEx when you spend it, that's fine. It just means lower CapEx, but the CapEx might have gotten spread historically over a few years, and the OpEx is in year 1.

So you've got year 2 and year 3 before you catch up. But it's not a cash flow issue. So you've got a little bit of that next year. We've got $10 million or $11 million of technology investment spend next year. And then you've got some of the things I talked about earlier on the call about cost of sales hurting in Q1 because of FX and the inventory reduction program from this year. Those are really the drivers.

Mike Swartz: OK, that's helpful. And then maybe one last one real quick here before we lose you. What are you assuming as your average diluted -- sorry, share count for '17, '18 at this point? In your EPS guidance.

John DeSimone: Yes, I think it's 76-ish, somewhere around 76 for next year.

Mike Swartz: For 2018, OK. And then you said 6.7 …

John DeSimone: Sorry, it's 77.

Mike Swartz: 77, OK.

John DeSimone: It's we're assuming no additional buyback. Again, that's our historical practice, right, is we take whatever our share base is now and roll with it. And then if we do buyback, that's upside.

Mike Swartz: OK, wonderful. That’s all for me. Thank you.

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

John DeSimone: Hi, Beth.

Beth Kite: Hi, guys. Hello, hello, it’s Beth. I guess if I could just start with one quick thing on the third quarter. I believe the latest guidance for the top line in local currency had been the down 1.6 percent to down 3.1 percent. And if that's correct, then kind of what swung to the down 4 percent when you reported?

John DeSimone: You're talking about local currency when we guided in October? Is that what you're suggesting?

Beth Kite: Yes, exactly. So I think that early October revision prior to the self-tender closing was down 1.6 percent to down 3.1 percent?

John DeSimone: Yes. Let me get back to you on that, I just don't know it off the top of my head on the (conference call). Thanks.

Beth Kite: Sure, sure. OK, And then, kind of talking about some of the questions that have been on the call so far, but just thinking about 2018, besides the obvious that we think our big markets are going to turn, is the 6 percent growth at the midpoint seem a little bold, if you will, relative to at least my model. What specifically is it beyond some of the things you've talked about in the U.S.? Are you more confident and constructive on China? Next year you'll have taken out some of the tragedy lately with the earthquake. Does that just feel better? If you can help us on sort of the drivers of that 6 percent.

Des Walsh: Yes, so Beth, let me take that one. So obviously, Beth, what we see is we see just the strong fundamentals in the business. When you look at our stats, like the average Sales Leaders with volume, obviously, for us, that's a key metric in terms of distributor engagement. When we look at the impact of some of the promotions that we're having; we look at our strength in the business in a number of areas.

And so although, obviously, as John has flagged, Q1 of next year, obviously, we've got a very difficult comp. But once we get through that and now we start anniversarying issues like the FTC implementation, like we anniversary the issues that we currently have in Mexico, we're just very cautiously optimistic about the year that lies ahead, and that's reflected in that guidance.

John DeSimone: Yes, and a couple of things that have dragged overall growth in the past. We've comped, like, Brazil. It's still down, but down 1.8 percent, and we expect to build off of that new base. So some of those things that have been dragging us down historically won't be dragging us down next year.

Beth Kite: OK. Maybe specific to China, then. Are you able to comment, has the number of Nutrition Clubs, I know that was in decline. Has that stabilized here in the fourth quarter? Are you at this point growing the number of Nutrition Clubs in the country?

Des Walsh: So the answer, Beth, is that it has stabilized, and now we're our obviously focused in terms of best practices in those areas where we're seeing the clubs overperform or outperform and working with our leaders in terms of increasing productivity in addition to expanding the number of clubs.

The other thing that we're looking at there, Beth, is that, as you know, primarily the clubs have been focused on your top-tier cities. We're now looking at second-tier and third-tier cities. Because as you know from clubs in other markets, it's actually in those lower-tier cities that you actually have almost the greatest opportunity because your operating costs are so much lower. And frankly, the need for that -- for good nutrition is even greater.

So when you expand the addressable population by going into those other areas, you actually achieve sometimes even greater success. So that's really a focus now of our business in China as we look to 2018 and beyond.

Beth Kite: OK, great. Thank you so much. And then just one more question on country and then back to some profitability real quickly to close, but for the U.S., it looks like the count of the preferred members in the third quarter was down from what you'd seen in the first two quarters of this year. Are you able to share with us kind of where you think a healthy level will be? And even thinking about next year for new preferred members in the North America business, kind of what would you like to see that number settle in to be quarter in and quarter out?

Des Walsh: So, I don't know, Beth, that I've got a specific number for you other than the fact that, obviously, we want to see not just the increase in productivity that we've seen, but we do want to see an increase in growth as well.

In terms of the balance, today, we've got about 470,000 preferred members. We've got about roughly 215,000 distributors. So it's roughly a sort of a two-third, one-third ratio that we've always believed, as you know, historically that we had roughly that number of people coming into the business primarily for a discount on the products. But obviously, as we look to the future, the other thing that we're excited about is the Salesforce initiative.

So with Salesforce.com, we anticipate that, that will drive not just our new member count but actually primarily focused on enhancing the productivity and the activity rate of that preferred member count. So we're excited about that. Obviously, we've got this pilot program beginning, but certainly in the future, we're going to be able to take advantage of all of this consumer data that we've never had in the past but we now have because of the millions of receipts that we're getting every month.

Beth Kite: Got it. OK. Super. Thank you. And then just last one, and maybe, John, this goes back to the question just before me. But in terms of thinking about profitability for 2018, I understand that you talked about some of the kind of specific things there for IT and otherwise. But do you expect to have to spend more in some of these markets next year than you did this year to have some of the top line growth? Do you think you have to put more people on the ground in China, for instance, or more folks here in the U.S. or even in Mexico?

John DeSimone: Well, look, we do go back historically as to how our cost structure generally works. There's a little leverage in our business as we grow, as you know, but our fixed costs are pretty low. Our variable costs are pretty high. And when you have high variable costs, you get low leverage. When you have high fixed costs, you get high leverage. So we're hoping to get a little bit of leverage next year, but we tend to add in infrastructure as we see the growth. We try not to get ahead of the growth.

So if you're asking do we have to invest in front of the growth, not very much. We will invest behind it as we see it, as we traditionally have done in the past. And that's how we've been able to operate this model now for quite some time.

Beth Kite: Got it. OK, thank you so much and John, I sure hope you feel better too.

John DeSimone: Thanks, so do I. Thanks.

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

Ivan Feinseth: Thank you for taking my call, my questions. I have three questions. One, what do you feel was the biggest cause of the reporting results under the guidance? And what do you feel you could be doing, you spoke about a new ERP system and forecasting system, to be more accurate in your forecasts? And then second is what are your plans going forward as far as the share repurchase? And then third, where do you feel the key new product introduction categories are going to be or what would be some of the key new products that you're going to be introducing in 2018? Thank you.

John DeSimone: Yes, so a couple of things. So we didn't miss our guidance, right. We're just on the lower side, and it was all because of the tax rate. We had talked a little bit earlier in detail when Tim asked the question as to what drove the tax rate, but it was all tax driven. If not for the tax rate, if our tax rate had come in as planned, we'd have been around the high end of guidance, so that's the entire reason for the change.

Your second question, we talked about a new ERP system for forecasting. That's not what we were saying. We did put a new ERP system in, or an upgraded ERP system for stability, because the last system we put in was in 2008 and this was time for an upgrade.

When we talk about forecasting predictable behavior, it's not about getting our financial forecast right. It's forecasting consumer behavior so we can impact that behavior and use it to grow sales, and that's something we're looking to do with Salesforce. So it's called predictive analytics. But it's not predictive analytics so that we can get our financial forecast right. It's so that we can drive higher growth, and so that's what we're talking about.

Then your third question was on the buyback. We're in what I think is a pretty good position. Our net debt is $650 million, a little less than $650 million. That includes about $1.6 million of cash. We have almost $750 million remaining on our authorized program. We haven't decided and generally do not communicate our strategy for buybacks until after it happens, and so we're going to stick with that. But we're in a good position to do whatever it is that we think will add the most value for the long-term benefit of our shareholders.

And then lastly, you asked about product, and I'm going to push that over to Rich to answer.

Rich Goudis: Great. Thanks, John. Just to go down a few of the topics on new products, and we sort of led a little bit on the call and without giving too much competitive information, I think they break into a few categories. Number one is more consumption occasions of our top-selling products. So for example, expanding more into soups to attract a hot meal or lunch or dinner. Expand our dinner shake that won an award in Russia this past summer to, again, attract customers at an evening occasion.

New sizes of our top-selling products. We had a couple successful launches here in the last month of our protein bar and also our top-selling Formula 1 meal replacement in smaller sizes to create excitement, attract new customers. New flavors and local flavors, more importantly, of some of our existing products.

Moving into more personalized nutrition, extending our Gene Start DNA test kit with success, hopefully, in Korea early next year. Expansion of our important sports lines. I don't want to go into too much specifics there, but we think that's a very important line, especially with millennials coming into the business and representing a larger percentage of our business.

And then expanding our line into and attract a more affluent wellness consumer that we see with some of our, let's say, new formulations and new protein sources of some of our top-selling products. So that's just to give you sort of a tease, if you will, without giving too much of our competitors a leg up on us.

Ivan Feinseth: Well, I like the probiotic you launched. I mean, to me that's an important category. The other important categories, I mean, I see in nutritional trends seem to be antioxidants. That seems to be another big thing a lot of consumers have interest in. Also, more I'd say either lifestyle or health stage specific things, like nutrients focused on diabetes or other things like that. Those seem to be important areas that consumers are either concerned about or have an interest in somehow improving. Are you thinking of, like, more custom nutrition, more custom items along those lines?

Rich Goudis: (Inaudible). I think we're more in line with what you're saying. So we'll launch an immunity booster next year, which is antioxidant-driven. The probiotic was an introduction to the microbiome and taking our distributors to that journey, and we have some, I think, exciting things that we're working on. I don't want to say too much about that. I think there's more we can do with microbiome. Yes, I'd prefer to be a little quiet on product and let us get these closer to market with our distributors before we show too much.

Ivan Feinseth: OK. I appreciate your help.

Rich Goudis: OK, good question. Thanks.

Ivan Feinseth: Thank you, bye.

Eric Monroe: I think that's the last question.

Operator: And we have no further questions in queue at this time. And I would like to turn the call back over to Rich Goudis, CEO, for any closing remarks.

Rich Goudis: Thank you again for joining us today. Before closing the call, I want to talk about corporate social responsibility, because supporting the communities where we live and work is an important part of our purpose to make the world healthier and happier. And I couldn't be more proud of our distributors and employees, whose community outreach following the recent natural disasters in Mexico and the U.S, including Puerto Rico, made such an impact, even while many of our volunteers were impacted themselves.

Our teams in Mexico joined the relief effort on the front lines, providing food, including thousands of Formula 1 Express meal bars to first responders, victims and volunteers. They also donated and delivered clothing, toys and medical supplies to those in need.

In the U.S., our distributors and employees raised money and gathered donations for hurricane victims, in many cases driving hours to donate supplies directly to shelters and nonprofit organizations. Our main sales center in Puerto Rico was reopened just 48 hours after the hurricane, servicing our distributors and helping provide their customers with much-needed food and nutrition.

As a company, we expanded our support of the American Red Cross, increasing our ongoing protein bar donations to support first responders, rescue workers and victims. We also partnered with SOMOS, a nonprofit agency to coordinate relief efforts in the form of product and water donations for the people of Puerto Rico. We are proud of our employees and distributors and applaud their efforts, but we're not surprised. It's all about our shared purpose to make the world healthier and happier. We look forward to updating you in late February with our full year results.

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

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