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HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Alan Quan
November 3, 2015
2:30 p.m. PT

Operator: This is conference # 51095552.

Operator: Good afternoon and thank you for joining the third quarter 2015 conference call for Herbalife Limited. On the call today is Michael Johnson, the company's Chairman and CEO; Des Walsh, the company's President; John DeSimone, the company CFO; and Alan Quan the company's Vice President Investor Relations. I would now like to turn the call over to Alan Quan to read the company's Safe Harbor language.

Alan Quan: Before we begin as a reminder during this conference call comments may be made that include some forward-looking statements. These statements involve 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 our risks associated with these forward-looking statements in our business. In addition during this call certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. generally accepted accounting principles referred to by the Securities and Exchange Commission as non-GAAP financial measures.

We believe that these non-GAAP financial measures assist management and investors in evaluating and preparing period to period results of operations in a more meaningful and consistent manner. Please refer to the Investor Relations section of our Web site Herbalife.com to find our press release for this quarter which contains a reconciliation of these measures.

Additionally when management makes reference to volume during this conference call they are referring to volume points. I'll now turn the call over to our Chairman and CEO Michael Johnson.

Michael Johnson: Thank you Alan and good afternoon and good evening everyone. Last year we implemented a series of strategic changes to our business and told you that they would result in improvements to our business. Well a year later I am pleased to report that our members around the world continue to embrace these changes and as a result we are reporting another quarter of improved volume trends and positive member metrics.

Our third-quarter adjusted EPS was $1.28 per diluted share which exceeded the high end of our guidance range of $1 to $1.10. Local currency net sales grew 5 percent when compared with the prior year period. This is a sequential improvement from the 1 percent local currency sales growth experienced in quarter 2.

Our reported net sales this quarter were impacted by a 70 percent currency headwind resulted in a 12 percent decline compared to the third quarter 2014. Worldwide volume points were down 3 percent in the quarter with the year-over-year trend improved sequentially compared to the second quarter which saw decline of 5 percent.

Cash flow from operations is up 32 percent from the third quarter compared to the same period Mac last year and remain strong and $134.5 million. Importantly many of our key member metrics are up and we believe they will continue to improve as we move further from the initial implementation of the business model changes we made late last year and this year. So for the third quarter in a row we are raising our full-year 2015 guidance.

John will address the specifics later and in addition he will provide details of our full year 2016 guidance which will reflect our confidence in the future in spite of the ongoing challenge of currency headwinds.

The improving trends we are seeing in our key metrics are consistent with our expectations and are built on the foundation of our strong sustainable business model. Our healthy business trends continue as we are seeing is significantly greater percentage of sales leaders qualifying through the 4K cumulative method and greater numbers of members ordering product quarter over quarter. Bottom line is that we have a much stronger more engaged a more active member base as a result of the changes we implemented and this has been done with the overwhelming support of our senior members around the world.

We're also seeing growth in the number of new members placing orders in all six regions. [*The highlighted text should have been stated as follows: "We're also seeing growth in the number of new members placing orders in all regions excluding Asia Pacific."*] For example this quarter the number of active new members and our North American region was up 33 percent compared to a decline of 16 percent in the second quarter. [*The highlighted text should have been stated as follows: "For example this quarter the number of active new members and our North American region was up 1.8 percent compared to a decline of 15.4 percent in the second quarter."*] These are both compared to the prior-year period. This is good news as it represents the first time in North America since quarter one 2014 that new members with volume have grown versus the prior year period. On a worldwide basis excluding China the total number of new active members was up 21 percent compared to the prior-year period. [*The highlighted text should have been stated as follows: "This is good news as it represents the first time in North America since quarter two of 2014 that new members with volume have grown versus the prior year period. On a worldwide basis excluding China the total number of new active members was up 8.7 percent compared to the prior-year period."*]

This is more good news as it compares to just a 1 percent increase in twin quarter to 2014 and the second quarter of this year. [*The highlighted text should have been stated as follows: "This is more good news as it compares to just 3.7 percent increase in between Q2 2014 and the second quarter of this year."*] This group is important because history tells us that new members who are immediately active and engaged them are likely to achieve their goals and remain with Herbalife in the long run. Improving trends in both our financials and member metrics reflect the attitude and the efforts of our senior sales leaders and the increased focus of our members on created personalized experiences for new customers and new members alike.

It was a busy third quarter in terms of interaction with our members in September to October we hosted seven major events in Mexico, Spain, Russia, Belarus, and Brazil as well as in APAC regional event in Indonesia. Altogether more than 50,000 confident and energized members came together to share ideas learn from each other and the company and to be recognized or their success. When we attend these events we take time to meet with members who are at different stages of the Herbalife journey.

We learn how the company can better serve them and the market and we hear stories and the positive impact they are having a people in their communities. What is clear is that there is an increased sense of pride that is taken hold among our members based on enhance customer service and member support. They talk about the care and value they bring to their customers to help them achieve their goals. They dedicate significant time to training and mentoring those new members looking to build a business which in turn leads to greater productivity and retention.

They are adopting and fostering more sustainable business methods such as Nutrition Club's Fit camps, Weight Loss Challenges, and shake parties. There is a real understanding among our members of the direct correlation between a positive expense with the people and products they represent our brand and retention and between retention and long-term sustainable growth.

We are implementing more local promotions designed to drive customer centric behavior encouraging and rewarding members to build their organizations around this philosophy of consumption, retention and the sustainability. And importantly is metrics show there is a higher level of engagement and activity as a result. In addition to these events we recently had our 10th anniversary celebration in China. More than 100,000 members and their customers across China came together for outdoor activities 5K runs and community workouts in nearly 100 cities to celebrate this important milestone. These events and many others like them throughout the year helped to further raise awareness of the Herbalife nutrition brand and our message around the healthy active life.

In the past year and a half more than 1 million members customers friends and families have attended thousands of member organized sporting events across China with the goal of improving their health through good nutrition and by becoming more physically active.

Sadly China has one of the fastest growing obesity rates in the world. But there is good news it is that Herbalife is uniquely positioned in this market to provide a solution through a combination of our nutrition products our community of Nutrition Club's our focus on a healthy active lifestyle and the support and mentoring provided by our members.

The focus on customers is greater than it's ever been in China as our products and Nutrition Club experience become embedded into the daily routines of our Chinese consumers. The growing number of Nutrition Club's provide unique community environment that encourages customer engagement and interaction and delivers results.

China experienced volume point growth of 24 percent in the quarter and we're confident that our model is the right one for long-term success in this market. And it's not just China. Around the world our members are increasingly focused on expanding the retail customer base and providing customers with the best experience possible. This means that the breadth, depth and pace of our products becomes ever more important therefore we will continue to strengthen and drive innovation in our product portfolio to ensure that it meets the demand of today's consumers.

Our research shows we are all part of a nutrition sector that is increasingly moving towards personalized solutions and away from a one-size-fits-all approach. While we are embracing the shift and see it as a great opportunity for which we are ideally positioned, our market is becoming increasingly segmented by demographics of personal preference in each of our user potential user groups have specific demands.

Understanding and addressing the needs of our different consumers requires couple segmentation and this will increasingly guide our product development member and consumer education and marketing efforts. Offering our consumers greater choices always has been important to Herbalife but we know it will be even more so in the coming years.

While we're already well-positioned for the future and key nutrition categories such as meal replacement, heart health, digestive health, sports and energy we continue to look to expand our choice with each of our product categories. Additionally we will continue to research and work with our members science team doctors and key suppliers to identify new trends and growth segments to ensure our members have the best products in an easy to understand education to serve their customers.

We are working and within challenging our global ingredient partners to ensure we are engaged in latest advancements in science and consumer preferences. In addition, we have number of new product ideas we are developing in-house that will take us into completely new customer segments. We are excited about what the future holds for our product offerings. We are also creating new categories of product that increase the number of occasions when Herbalife can be consumed. For example we just launched a new Formula 1 chicken and vegetables soup in Brazil.

This is our first ever high protein meal replacement soup and it opens up a completely new consumption occasion for our members and their customers. It also opens up interesting opportunities for Nutrition Club owners to get greater use out of their existing facilities. Having a new meal option gives them a reason to expand our operating hours. We are already seeing clubs in China and Korea open in the evening for nutrition education and social activities and giving members new meal options will only add to their success.

In addition we continue to expand our flavors for core products to appeal to specific markets and generate real excitement among our members and their customers. We currently have 24 Formula 1 flavors and our newest flavor mocha chino which just launched in Brazil. We're also creating additional product that further support the daily consumption business models of our members. A key strategy for us is to allow her Nutrition Club owners to personalize customer shakes by offering targeted nutrition boosters.

This past quarter we introduced an extra kale powder booster in Mexico which allows customers to increase their calcium intake while visiting the club. Extra kale was the top-selling tablet in Mexico we believe this new delivery form will be a catalyst for growth in this key dietary supplement. We recently introduced a Mandarin flavored aloe concentrate in Mexico providing further choice and variety and it has been enthusiastically received by customers and members in their Nutrition Club's.

Our focus on creating new products extending existing product line to creating additional consumption occasions has been a significant function of our sincere. It is an additional advantage for us to create more about her and liquid products allowing us to further leverage our vertical manufacturing infrastructure which is great for our members consumers and shareholders.

In the past quarter we self manufactured nearly 60 percent of all of our nutrition products which along with our unwavering commitment to product quality creates a competitive advantage for us in terms of bringing innovative products to the market.

And let me conclude the update on products with the category close to my heart – sports attrition. This quarter we unveiled in addition to our Herbalife24 line CR7Drive our exciting new sports hydration drink developed by our science teams in collaboration with global soccer superstar Cristiano Ronaldo. Thus CR seven.

We believe this product addresses a number of key customer growth segments will demonstrating our leadership and innovation in the sports nutrition sector. Since its creation in 2011 our Herbalife24 sports line has attracted a new younger millennial demographic to Herbalife as both members and customers and CR7Drive is a marquee addition to the Herbalife24 portfolio.

Following its official launch at our EMEA extravaganza's Tom Beaudoin the excitement level among our members has been incredible was sales already exceeding our initial forecast. CR7Drive is now available here North America we have begun to roll it out globally. We believe the brand and power of this gentleman although with such an innovative product creates a unique competitive advantage for our company.

We believe will attract new members and have a positive impact on the engagement of our existing members it will open up new sales opportunities for members to expand and grow the retail customer base. And it will further elevate our brand globally. Nothing emphasizes this last point more than the impact of her social media campaign.

In just the first week the #CR7Drive achieved more than 78 million impressions more than 12.5 million users were reached on Facebook and Twitter and the launch video alone had more than 2 million views. We are working hard to build our product portfolio by segment and to refine our marketing and messaging so that we can communicate more effectively with our members and their customers. We're confident that this will lead to increase sales and even higher levels of customers and member satisfaction.

Globally we remain focused on building the brand that synonymous with good nutrition and healthy active life.

In September that message was heard loud and clear through our very visible presence in America and triathlon events in Los Angeles Washington, DC, Malibu and Chicago in October Herbalife was also the prominent title sponsor of the Bali international triathlon.

Our sponsorship of these events as well as many others drop the year reflects our ongoing global commitment to events and activities that support our message of a healthy active life. In Asia-Pacific we just held our fourth annual wellness tour. Throughout the month of October our nutrition experts spoke with scientific and health professionals and academics and governments as well as Herbalife members and consumers across 14 markets in 21 cities to increase the understanding of what can be done to improve one's well-being.

We also continue to forge relationships with organizations and groups that are aligned with our commitment to improving our communities through good nutrition. I previously announced partnership with the American Red Cross through which we provide protein snack bars to blood donors around the U.S. continues to introduce our brand and products to hundreds of thousands of consumers who might not otherwise be aware of the benefit of Herbalife products.

The launch this month of the co-branded protein bar will have a further positive impact on the awareness and perception of our brand of provide a great opportunity for our members as they speak with the just Inc. and potential customers. This quarter was one of further steady improvement and continuing progress along the path we set out. It was a positive EPS performance against the backdrop of global macro challenges most total be significant currency headwinds. We have more new members with volume more sales leader with volume and a record number of members purchasing directly from the company.

In other words, we have more people buying Herbalife products and never before importantly the improving volume trends the underlying member metrics that we are seeing are consistent with what we expected when we rolled out the changes to our business over a year ago.

We believe these are reliable indicators of continuing positive future performance and this confidence is reflected in her 2016 guidance. Our members are as engaged in confident as ever about the future as evidenced by the record numbers of them attending our events around the world. I want to recognize and congratulate them for the way they have embraced our transition so successfully. Their resilience hard work and energy is remarkable and is rewarded every day when we see the positive impact they are having on friends families and communities.

They are helping customers improve their nutrition habits. They are empowering members with new skills and they are creating opportunity. Their ongoing focus on setting and meeting expectations of those who come to Herbalife is building our brand of making our business stronger every single day.

And finally we just completed our five-year planning process where we relayed out a strategy for continuing growth for the years ahead and we have never been more excited about where we're going as a company or more confident about the future. Herbalife look continue to place the customer at the center of all we do with nutrition products that meet their daily needs and the unique social network that provides community support education and most importantly results.

We will continue to make a positive impact in communities around the world by bringing good nutrition and an opportunity for people to earn supplemental income or build a full-time business. And we will continue to build Herbalife on a sustainable growth platform to deliver long-term value for you our shareholders.

John will now take you through a more detailed look at the financials and market highlights.

John DeSimone: Thank you Michael. To start I will review the company's third-quarter reported and adjusted results which will include key market highlights. I will then provide an update on guidance for the fourth quarter and initial full year guidance for 2016.

For the third quarter worldwide net sales of $1.1 billion grew 5 percent in constant currency terms. While reported net sales declined 12 percent compared to the same period last year with currency headwinds in the quarter resulting in a decline of 17 percent.

The 5 percent growth in local currency is a sequential improvement over the 1 percent growth in local currency experienced in Q2. Adjusted EPS of $1.28 per diluted share was significantly above the high end of our guidance range of $1 to $1.10. Reported EPS was $1.09 per diluted share compared to $0.13 per diluted share for the third quarter 2014.

Currency had a negative impact on the third quarter EPS of $0.42 compared to the prior-year period and $0.03 compared to the guidance provided last quarter. For the full-year 2015 we are raising adjusted diluted EPS guidance to a range of $4.65 to $4.75 versus the previous range of $4.50 to $4.70.

Exchange rate movements since the guidance provided a quarter ago have negatively impacted our 2015 EPS expectations by $0.14. $0.03 of which was realized in Q3 and $0.11 impacting Q4 guidance. I will provide further detail on guidance later in the call. For the quarter we continue to see improvement in member trends across key markets.

The worldwide sales leader activity rate including China was 62 percent in the third quarter compared to 59 percent last year and as Michael previously mentioned we are excited by the trend of new active members which continue to strengthen showing broad-based geographic improvement in the third quarter. Worldwide new members with activity, excluding China, grew 21 percent in the third quarter compared to the prior-year period and improve sequentially against an increase of only 1 percent in the second quarter of 2015. [*The highlighted text should have been stated as follows: "Worldwide new members with activity, excluding China, grew 8.7 percent in the third* *quarter compared to the prior-year period and improve sequentially against an increase of only 3.7 percent in the second quarter of 2015."*]

This shift is showing us that despite total number of new members being slightly down those new members coming into the business are more engaged active and productive.

Turning now to market and regional highlights. Worldwide volume points declined 3 percent an improvement or the 5 percent decline in the second quarter. Approximately 60 percent of our markets experienced volume point growth during the quarter. In the third quarter volume points in the U.S. declined 6 percent versus the prior-year period an improvement compared to a decrease of 9 percent in the second quarter.

Importantly, as Michael already mentioned, for the first time since the first quarter of 2014 active new members in the U.S. group versus the prior-year period. Active new members were up 33 percent compared to the same quarter last year. And this compares to a decline of 16 percent in Q2 and a decline of 28 percent in Q1. [*The highlighted text should have been stated as follows: "for the first time since the second quarter of 2014 active new members in the U.S. group versus the prior-year period. Active new members were up 0.8 percent compared to the same quarter last year. And this compares to a decline of 16 percent in Q2 and a decline of 27.1 percent in Q1."*] We continue to be encouraged by this trend.

Similar to the second quarter volume points of Brazil declined 1 percent in the third quarter compared to the prior year and new members with activity were 65 percent compared to last year. [*The highlighted text should have been stated as follows: "new members with activity were 71.9 percent compared to last year.*] Moving on to Mexico this market displayed tremendous resiliency during the quarter. As noted last quarter the company implemented and 16 percent VAT during the third quarter on many of its products. Despite the significant cost increased to customers volume points in Mexico was down only 5 percent compared to prior year similar to what we reported in the second quarter.

We expect a 16 percent VAT increase will continue to impact volume on year-over-year comparisons until it is annualized next year and we have included the expected impact in our guidance. Member trends in Mexico during the quarter continued to improve and in the third quarter 83 percent of sales leaders qualified through the 4K cumulative method compared to 20 percent during the same period last year and 75 percent in the second quarter of 2015.

In addition the percentage of volume in one and two-month qualifiers has decreased from 16 percent in 2014 to 2 percent in the third quarter this year showing a continued acceptance of the changes implemented last year and earlier this year. The percentage of new members with activity in Mexico increased by 29 percent compared to the prior year up from 14 percent growth in Q2. [*The highlighted text should have been stated as follows: "The percentage of new members with activity in Mexico increased by 29 percent compared to the prior year up from 21.7 percent growth in Q2."*]

Volumes in Korea declined 45 percent compared to last year. In addition to the impact on the global marketing plan changes implemented over the past year, this quarter presented a difficult comparison for Korea as it also implemented local marketing plan changes last August that had a similar effect to a price increase and resulted in an increase in volume to Q3 last year while this year we announced a price increase in Q2 that we believe resulted in forward purchasing in Q2 and negatively impacted this year's Q3 volume.

Moving on to China the focus on customers in daily consumption has resonated throughout our business in China and it continues to shows strength despite ongoing macroeconomic challenges. For the quarter China's volume points group 24 percent compared to last year. During the quarter we also saw a record high number of average active sales leaders which were up 31 percent compared to last year.

For the quarter volume points in EMEA grew 10 percent compared to last year and new members with activity increased 34 percent compared to the prior year. [*The highlighted text should have been stated as follows: "new members with activity increased 10.2 percent compared to the prior year"]*

Russia the region's largest market returned to volume point growth in the third quarter. It reported a volume increase of 4 percent compared to the prior year and local currency growth of 19 percent. Despite the ongoing difficult economic circumstances in the market, we believe that the market has adjusted to the 14 percent price increase implemented earlier this year.

Moving on to our financial highlights for the third quarter. As previously stated third quarter adjusted EPS was $1.28 which was above our guidance range of $1 to $1.10 and compared to $1.45 per diluted share in the third quarter of 2014. Third quarter EPS was negatively impacted versus the prior-year period by $0.42 of currency movement.

Reported net income for the quarter was $93.6 million or $1.09 per diluted share versus $11.2 million or $0.13 per diluted share last year. Our third-quarter reported EPS includes additional items we consider outside of the normal company operations or items that we believe will be useful to investors when analyzing period over period comparisons of our results.

These items include $0.03 related to expenses incurred responding to attacks on our company's business model $0.05 for expenses related to regulatory increase $0.13 related to non-cash interest expense and the amortization of non-cash issuance costs and 2 other offsetting items related to Venezuela. Adjusted results also exclude a $0.02 favorable impact related to the recovery of payments against effective manufacturing equipment at our Winston Salem facility which were previously impaired and called out and also we $0.01 favorable impact resulting from of foreign exchange gain from the euro U.S. dollar exposure on intercompany balances.

Our reported gross margins for the quarter increased by 150 basis points compared to the prior-year period and excluding additional items we consider outside of normal company operations gross profit increased by approximately 90 basis points. On an adjusted basis gross margins benefited 145 basis points in price increases and country mix which were partially offset by the unfavorable impact of foreign currency of approximately 80 basis points.

SG&A excluding non-GAAP items was 38.2 percent of net sales. This represents an increase of 180 basis points compared to the third quarter of 2014, which is in large part due to the continued growth in China and the resulting increase in China member payments.

Excluding China number payments and other non-GAAP items SG&A as a percentage of net sales was 28.6 percent a decrease of 90 basis points compared to the prior-year period reflecting the timing of sales events and the continued focus on cost management. Regarding sales events there are approximately $6 million in the events that during last year were in Q3 but will be in Q4 this year.

Our adjusted effective tax rate for the quarter was 30.5 percent which is at the high end of our guidance range and 60 basis points above our tax rate from the same period last year primarily to a decrease in net benefits from discrete events which was partially offset by a change in the country mix earnings.

Cash flow from operations for the third quarter was $134.5 million up 32 percent compared to the prior-year period. At the close of the third quarter we had approximately $813.2 million in cash of which $479.7 million or 59 percent was held in the U.S.. At the end of the third quarter the current portion of our long-term debt is $254.7 million. Moving on to guidance starting with the fourth-quarter we expect volume point trends to sequentially improve in the fourth quarter and estimate a range between a decline of 1.5 percent to growth of 1.5 percent.

Net sales will continue to be negatively impacted by currency exchange rates. For the fourth quarter we estimated declined of 5.5 percent to 8.5 percent in net sales or an increase of 1.6 percent to 4.6 percent including currency. Adjusted diluted EPS guidance for the fourth quarter is estimated in a range of $0.5=85 to $0.95 per share. Currency has negatively impacted the fourth-quarter EPS guidance by $0.11 since rates assumed a quarter ago and $ 0.27 versus the prior-year period.

Full-year adjusted diluted EPS guidance is in the range of $4.65. Full-year adjusted diluted EPS guidance is in the range of $4.60 $4.75 which includes a dollar 54 full-year unfavorable impacting currency. Our capital expenditures for the fourth quarter our estimated in the range of $30 million-$40 million and our effective tax rate guidance is 27.5 percent to 29.5 percent for the fourth quarter and 29 percent to 30 percent for the full year.

With respect to cash flow we are raising our free cash flow guidance for the year to fund cash from operations less capital expenditures and $20 million to both the low and high end of previous guidance and now estimate full year free cash flow to be in a range of $490 million-$510 million.

Looking further ahead to full year 2016 our initial guidance for net sales growth is within a range of 4.5 percent and 7.5 percent, on volume point growth of 2.5 percent and 5.5 percent. Our adjusted diluted EPS range of $4.35 to $4.75. We continue to face negative currency movements against the U.S. dollar and as a result have estimated in unfavorable impact of $0.50 from currency movements versus 2015.

On a constant currency basis guidance for adjusted EPS would be in a range of $4.85 to $5.25 per share. Our effective tax rate guidance for the year is 28 percent to 30 percent. Capital expenditure for 2016 is estimated within a range of $115 million-$145 million of which $20 million is dedicated for the upgrade to our Oracle system and $22 million for the buildout of our third manufacturing plant in China which is planned to start production in the second half of 2016.

This ends my prepared remarks and we will now be happy to take your questions. Operator?

Operator: At this time, if you would like to ask a question, please press star, then the number one on your telephone keypad. Again, that is star one.

We'll take a moment to compile the Q&A roster.

Your first question comes from the line of Meredith Adler from Barclays.

Male: Operator, we must have lost her. Let's go to the next question we will come back to Meredith when she dials back in.

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

Tim Ramey: Just wanted to get a little more color on the conservative guidance for adjusted diluted EPS for 2016. Basically looking at a flattish or perhaps even down year. I know you mentioned the $0.50 of currency but the top line numbers are certainly favorable. So anything else you can throw at that that would help us understand?

John DeSimone: I think you nailed it. So I think from a volume standpoint we are looking at low to mid single digits for the year but that accelerates throughout the year with each sequential quarter being better than the last. The challenges to currency headwinds and it is the $0.50 headwind most of that actually occurred since the last quarter.

As you know in our call script we have an $0.11 impacting Q4 of this year versus the guidance we gave just 90 days ago from the movement in currency and just for your modeling purposes that $0.11 I will give you some key movers. The Brazil currency was $0.03, the Mexican Peso was $0.02, China was another $0.01 and that 6 of the $0.11 and then it was spread out between a penny a year for Korea, a penny for Russia and movement like that.

So it’s – it really is broad-based with a little bit of an overweight toward Korea and Mexico and that's really what the key drivers for the currency headwinds next year also.

Tim Ramey: And John also on the CapEx forecast I think at the second quarter you called that out as 110 to 130 and now you're calling for the full year to be $80 million-$90 million can you give us some color on what happened there did some project slip into next year?

John DeSimone: Some projects flipped into next year and we pushed – the China factory a lot of that spending is in next year and some of it still in this year and it's needed we had to take a high-speed line out of Winston-Salem and ship it over to China to handle the needs there so that's one of the projects that are a little bit push but is still needed for next year and the Oracle upgrade, we're doing in

Oracle system-wide global upgrade that was going to start in Q4 but it starts next year.

Tim Ramey: Great. OK. Thanks.

Operator: Your next question comes from the line of Scott Van Winkle from Canaccord.

Scott Van Winkle: Thanks. John I want to explore that last question from Tim a little more on the guidance from last year. What kind of shocked me was the higher revenue dollar guidance than volume guidance unless I'm reading that incorrectly.

I would've thought the other way obviously with currency. Is there a lot of price flowing through next year?

John DeSimone: Well, yes there is a significant amount of price, some of it is actually came through the third quarter already and some more in the fourth quarter and then of course we will have some next year to compensate for some of the currency movement.

Again we don't adjust price based on currency we adjust price based off of inflation. But as currency moves and some of these countries it has an impact on inflation so than we take a price increase. It's always a lag to inflation. It's always only a fraction of the currency movement but that's part of what is happening between the volume point and net sales and then the other element is country mix favorable mix next year.

Scott Van Winkle: I know you called out your price increase in Russia. Are there specific markets where we should think about more impact from pricing?

John DeSimone: So Russia was one we did in March. We did a U.S. one in May of 2 percent so that had about half a year this year. It will have a full year next year and then throughout the world we've done a number of price increases tied to inflation I don't have all the numbers off the top of my head but I'm happy to give them to you after the call.

Scott Van Winkle: OK and last point on that if we are thinking about mid-single-digit revenue growth and kind of flat earnings year-over-year where does the loss in the P&L from currency?

John DeSimone: Actually I think on a constant currency basis its growth in EPS this year high end of the guidance is (475) on a constant currency basis would be somewhere around $5.20 $5.35 on a constant currency basis. So it is in fact currency. One of the elements that impacts margins next year is in fact country mix.

So some of the more complex regions more expensive to run is where some of the growth is. One of the things I will point out on a mid-single-digit volume growth next year it is an acceleration throughout the year. We ended the year more to a high single-digit buying growth.

Scott Van Winkle: Got you. And then a few others if I could. Another financial one for you John, the gross margin. You didn't call out (soft) manufacturing and an improvement year-over-year.

It seems like every time we hear number about what percentage of sales is self-manufactured, it’s going up. Was that an impact?

John DeSimone: It was a small impact. Actually – so Winston-Salem was profitable this quarter and expected to be profitable in Q4 but you don't see the impact of that until next year. The rolled out with it inventory turns so it's not hitting the P&L yet. It's still a slight impact two gross profit but it will accelerate a little bit more next year.

Scott Van Winkle: Great and then on the VAT in Mexico. I remember talking about a last quarter but I don't remember when was a put into the place during the quarter? And I'm wondering if the impact was more significant in Q4 and going forward than we saw in Q3?

John DeSimone: It was implemented during a quarter. So it didn't this quarter didn't start out with the complete implementation of the VAT and by September and in the month of September about 76 percent of our products sold in Mexico had VAT. So that's closer to the 80 that will have VAT when it’s fully implemented. In September, not any meaningfully different from a growth rate standpoint than August or July.

Scott Van Winkle: OK and then can we talk a little bit more about Korea. You talked about comparisons obviously with full forward in sales last year during the quarter and maybe a little pull-out this time around.

But it seems to be the market that has had the most impact overcoming the marketing plan changes. Is that right? What's different? You called out four markets where we will see a big impact in Korea is this the one that's having the most? Do I have that right? And then second what's different and does it kind of turn later or sooner or anything you have got to kind of expand on that?

Des Walsh: Yes got this is Des let me take that one. So what we have in Korea is a situations where (effect) we had two to marketing plan changes Scott. As you know Korea because it's a local regulatory environment as a slightly different marketing plan than the rest of the world.

So we had the same worldwide changes in terms of the first-order program in terms of the transition of 5K to 4K and we have local marketing plan change that was intended and additional discount level below the level of supervisors.

So it was really the accumulation of those changes plus the addition of a surcharge in so that's why you have a cumulative effect. Frankly our members are responding well to this and we certainly are seeing high levels of engagement but the reality is because of accumulation in Korea is returned it will be 2016 story.

Scott Van Winkle: Great. Thank you Des.

Operator: Your next question comes from the line of (April Fee) with CRT.

(April Fee): Hi thanks. Just a question or two on the organic and first for the guidance for the fourth quarter. I want to make sure I understand it when you were looking at the range of 1.6 to 4.6 how do I think about that when you are faced with an easier comp in the fourth quarter.

And then also on a 12 month basis when we're plugging in the math I had trouble getting to your numbers and conversely on the FY16 guidance the 7 percent to 10 percent sounds like a pretty good acceleration.

I know you talked about a lot of the things moving in the right direction but what's driving in your confidence in the 7 to 10? What would be the big risk there be looking at from moving piece perspective?

John DeSimone: Well I will take it from end and to beginning and take your last question first. For next year we're seeing a dramatic improvement in engagement levels with our member base which we plug into our models to use to project the next couple of years of volume by country.

And it's based on active members and active members are dramatically improved in the third quarter from where they were in the second quarter and the first quarter and big picture numbers deal with full company X China and then up bring in some particular countries but active new members in Q1 of this year was down 4 percent; in Q2 it was up 1 percent; in Q3 of was up 21 percent. [*The highlighted text should have been stated as follows: "active new members in Q1 of this year was down 1.7 percent; in Q2 it was up 3.7 percent; in Q3 of was up 8.7 percent"*] So dramatic increase.

In the U.S. in Q1 it was down 28 percent in Q2 is down 17 percent in Q3 up 33 percent. [*The highlighted text should have been stated as follows: "In the U.S. in Q1 it was down 27.1 percent in Q2 is down 16 percent in Q3 up 0.8 percent"*] Now when new members comment there's a cycle in the model that purchase them up for at least a couple years and you get the benefit for a couple years so this goes into next year's model. Some of next year is dealing with last year's new members, which is why next year the beginning of the year you get a balancing of that and you get a acceleration in the back half of next year.

(April Fee): That's very helpful. And then just on the guidance for the fourth quarter and the full year, there is the comment about the (benefits) excluded and how do we think about that in relation to the fourth-quarter guidance and then just mathematically how do we get to the one to 1.17 for the full-year?

John DeSimone: The difference for the math is on the forward-looking periods we don't include the benefit from price increases in Venezuela in our constant currency guidance. You get these price increases because of the change in the exchange rate and so without the exchange rate you would not have the price increase. So that's (why when you look at your projections in Q4) you can't do the math.

But we provide that information in our Web site looking backwards in the Investor Relations portion of our Web site. Now remember – so Q1 of this year had some decent volumes from Venezuela but then was a big drop off in Q2, three, and four and Venezuela's only going to impact the guidance for one more quarter and that the numbers are so small it doesn't matter after Q1 of next year.

(April Fee): OK that's really helpful and just on some of the new initiatives you talked about a lot of them this quarter but just thinking about the savory and the hot and the sports nutrition and the chicken soup stuff you mentioned on this call, when would you expect those to have a new critical mass that they really start to matter to the representatives or the numbers and how do you incentivize the reps to get involved with them to drive these new businesses?

Des Walsh: So April this is Des. So we're already seeing the impact April in terms of new member engagement in terms of the profile of new members coming into the business we're seeing a younger demographic attracted by the SportsLine.

We're seeing the excitement that it creates having Cristiano Ronaldo and his activity on social media has been a tremendous boost in terms of confidence in engagement so were already seeing that impact and use it in terms of the sequential improvement in various metrics in terms of new member activity not just in the U.S. but in other regions of the world.

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

Mike Swartz: John I have a question about the third quarter. Volume in the quarter came in relatively in line with your expectations that you gave a couple months ago and EPS came in well above the range that you had outlined.

Can you help us bridge the gap of what came in better than expected?

John DeSimone: So it's on the expense side and the expense side falls into two buckets. So there's a timing bucket of about $0.05 that got moved into the fourth quarter so we still expect to spend the money. We just profile the differently than we did a quarter ago and then it's lower expenses. We're managing expenses. I think we talked about that now for a few quarters and we will continue to do that.

Mike Swartz: OK and I apologize if I missed this, but in terms of 2016 guidance it looks like you're looking for about 7 percent to 10 percent topline growth and ex-currency but then EPS ex currency you are looking for 4 percent to 10 percent growth so why are you seeing leverage there excluding the negative of currency?

Mike Swartz: That's a great question. So there are two reasons which I tried to describe it earlier. So some of the countries where the SG&A is higher in the region where it’s higher is where the growth is coming from or the growth is outweighing some of the other countries.

So we have got a country mix challenge. That's about $50 million impact to the bottom line. That makes up the majority of the difference and the other side is of course we’ve been controlling expenses very significantly this year.

And as growth starts to reappear during next year exceeds that low to mid single the range we’re going to add some of those costs back that are needed.

Mike Swartz: Did you say the country mix aspect of that was 50, or 15?

John DeSimone: I’m glad you asked. Clarification 1-5. I'm it's my accent.

Operator: Your last question comes from the line of Meredith Adler with Barclays Hello guys.

Meredith Adler: A lot of my questions have been asked. I guess I would like to go back and talk about Korea just a little bit. It is your growth established market and obviously it's unique market (of changes).

Is there any reason to believe that what you're seeing there is tied to the majority of the market. I think the one time anyway volume for capital was pretty high there. Is there anything to see that as a problem now and if it's true should we be thinking about that for other markets?

Des Walsh: No Meredith, we have no reason to believe that because as you know we have other markets in the world (comparate) volume points per person. So what we see there is really a reflection of the cumulative marketing plan changes.

And anytime you've got that level of change in a certain amount of period you've obviously got a distraction issue. So we're very focused on that. We've got a very strong consumption-based business with the clubs but what we're seeing is a significant reduction in terms of new sales (aders) and that's really sort of the key factor but again nothing that would give us any pause for concern regarding the long-term health of the market. Simply a longer transition and adoption of the marketing plan changes moving beyond those.

John DeSimone: And I know Meredith said this already but it's worth repeating. Korea has a different marketing plan than the rest of the world and the changes made to that marketing plan was different than the rest of the world.

Meredith Adler: All right. OK. And then I have a question about – you had a skin care line. And I was wondering how that's done or – you know I'll just (contair line) – how that's done? And do you think that relates at all to any distinct product how quickly it will get accepted and maybe even having to educate your members about it?

Des Walsh: So the skincare line has performed moderately. Well I think from our perspective, the primary reason for the updating of the skincare line was part of our initiative constantly to be updating based on the latest science.

We took out phosphates. We took out sulfate. So the line is a better line from that perspective and we are proud of that. In terms of our core business skincare is not really our core business and so that's why I think from our members perspective really our focus on our efficient (or inefficient) products rather and Outer Nutrition.

So I think it will always remain an important part of our business but certainly not one that we are highly focused on.

Meredith Adler: OK and then real quick maybe a simple question but you did say you had to take the line out of Winston Salem in terms of China which I'm assuming that China valuing was outstripping the availability of capacity. Did that have any impact on any other markets having to take that out or was that just underutilized capacity (mention)?

John DeSimone: No, it was underutilized capacity. So we have 11 lines or we had 11 lines in Winston-Salem. So we're down to 10, nine of which are running, the 10th one will come up next month and we're running between 35 percent of 40 percent maybe 35 percent to 45 percent of capacity based off of that equipment.

So there was plenty of room and that's why we chose to reduce lead times by moving equipment we already had as opposed to ordering new equipment for China. Now we will order the equipment for Winston-Salem to replace that line and then there’s actually five clean room's already built for five additional lines we need in Winston-Salem.

Meredith Adler: Got it. In my final question would be about raw material (costs). Are you seeing any changes in that?

John DeSimone: So we’re seeing – so it differs by commodity. So in certain commodities we’ve seen a little bit of a reduction but nothing meaningful.

Meredith Adler: But nothing going up?

John DeSimone: Not on a global basis. When we look at overall material costs it's a net slight decrease going into next year we believe.

Meredith Adler: Great. OK. Thank you very much for answering my questions.

John DeSimone: I want to thank everybody for being on the call today. It's obvious that we have got some currency headwinds heading into next year and you are all focused on guidance as you should be but let me just point out some things that I think are important to our company's that members are simulating to these marketing plan changes as we speak.

They are improving volume the local currency sales trends are great. Quarter three improved over quarter (three to we) expect sequential improvements in quarter four and throughout next year.

Engagement levels are incredibly high. Average active sales leaders are up versus prior year. New members with activity are up in every region both compared to prior year and sequentially. [*The highlighted text should have been stated as follows: "New members with activity are up in every region with the exception of APAC, and new members with activity was sequentially up from the 2nd quarter of 2015 to the 3rd quarter of 2015 only in the SAMCAM region."*]

More people are ordering from the company than ever before and finally just you know me both of you know me I'm very passionate about our company we have to start the day with two pretty amazing calls.

One, to congratulate 35 year employee of Herbalife and that is just amazing to know that the legacy of this company continues to be incredibly strong.

This employees started in the little tiny office on 251 Robertson Boulevard here in Los Angeles and today we are and 91 markets almost 5 billion sale strong and the growth that he has seen and the growth we have seen in the company's continues to give us incredible confidence about the future.

And the second call was something very special. It was a call to recognize and congratulate a member in Scotland for his achievements and arise from the president's team. His story is really one of engagement and activity in helping customers in his community improve their health through nutrition and healthy activity. This formal Royal Marine (mando) which is another wonderful story has changed his life and the lives of the community through Herbalife. His story is inspiring and motivating to every single one of us.

And it just leaves me say – and I'll say this all the time – Herbalife is a special company. We are made up of thousands of members and employees like the gentleman that we started our day with today. They work hard. They are resilient they believe strongly in our mission and I just want to thank all of you for your support. We look forward to reporting our fourth-quarter full year to you on our next call. Thank you very much.

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

END