

HERBALIFE INTERNATIONAL OF AMERICA, INC.

Moderator: Eric Monroe
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Operator: This is conference # 1198534

Operator: Good afternoon, and thank you for joining the Fourth Quarter and Full Year 2018 Earnings Conference Call for Herbalife Nutrition Ltd. On the call today is Michael Johnson, the company's Chairman and CEO, John DeSimone, the company's Co-President and Chief Strategic Officer; and Dr. John Agwunobi, the company's Co-President and Chief Health and Nutrition Officer; and Eric Monroe, the company's Director, Investor Relations.

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

Eric Monroe: Before we begin, as a reminder, during this conference call, we may make forward-looking within the meaning of the Federal Securities Laws. These statements are subject to known and unknown risks and uncertainties that could actual results to differ materially from those discussed or anticipated. For a complete discussion of risks associated with these forward-looking statements in our business, we encourage you to refer to today's earnings release and our SEC filings, including our most recent annual report on Form 10-K.

Our forward looking statements are based upon information currently available to us. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any future events or circumstances or to reflect the occurrence of unanticipated events, 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 you by the Securities and Exchange Commission as non-GAAP financial measures.

We believe that these non-GAAP financial measures assist management and investors in evaluating our performance and preparing period-to-period results of operations in a more meaningful and consistent manner, as discussed in greater detail in the supplemental schedules to our earnings release. A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release submitted to the SEC. These reconciliations together with additional supplemental information are also available at the Investor Relations section of our Web Site herbalife.com. Additionally, when management makes reference to volumes during this conference call, they are referring to volume points.

I'll now turn the call over to our Chairman and CEO, Michael Johnson.

Michael O. Johnson: Good afternoon, everyone, thank you for joining us on the call today. Let me start out by saying that our momentum in Herbalife Nutrition is as strong as ever. It's great to be back on this call with you and in resuming my former role, I'm really excited about continuing to propel us towards the future building off these tremendous fourth quarter results that you saw on our press release today. We believe the trajectory of our business is incredibly promising. The progress we have made through innovation, broadening our product portfolio and building out our technology platform to help our distributors improve their productivity and profitability is truly remarkable.

As you know, I'm extremely familiar with the world-class leadership team that we have overseeing these strategies and am confident that we won't miss a beat. I have been working close with my good friends and Co-Presidents, Dr. John Agwunobi, and John DeSimone; Chief Operating Officer, Dave Pezzullo; Executive Vice Chairman Des Walsh, and others as we leverage our momentum and continue to drive our strong performance and growth. I'm incredibly proud of this management team and their hard work and commitment to our goal of being the world's premier nutrition company.

Our company is as strong as ever, and our solid foundation, unmatched enthusiasm and results have positioned us well for long-term growth. Our performance has been outstanding thanks to the incredible efforts, dedication and skills of our independent distributors and employees. John DeSimone will go into the financial details shortly, but I'd like to call out a few highlights from 2018.

For the full year, we reported net sales growth of over 10 percent compared to 2017, including year-over-year increases in 8 of our top 10 markets. In terms of volume points, for the full year, we set a new all-time record-high for the company, including growth in 5 of our 6 regions. In 2019, we planned to not only continue our growth, but also to expand our mission around the world, 1 distributor and 1 customer at a time. This is a great time to be part of Herbalife nutrition and to be leading this talented team of distributors and employees who are committed to continuing this momentum and driving results.

Let me now turn it over to John DeSimone.

John G. DeSimone: Today, I'll start by discussing the company's fourth quarter and full year 2018 reported and adjusted results, which include key market highlights. I'll then review our first quarter and full year 2019 guidance.

Fourth quarter net sales of \$1.2 billion represents an increase of 9 percent on a reported basis, compared to the fourth quarter in 2017; full year 2018 worldwide reported net sales of \$4.9 billion represents a year-over-year increase of 10 percent. Volume points for the fourth quarter 2018 were approximately \$1.5 billion, which represents an increase of approximately 11.8 percent compared to the fourth quarter of 2017 and benefited by approximately 70 basis points from a number of (tests) we implemented during 2018 related to changes in product volume point values. This is the largest fourth quarter volume point results in the company's history and represents the third consecutive quarterly volume point record as both the second for the third quarter's volume point results where all-time highs, respectively.

It is, therefore, no surprise that full year 2018 volume points of approximately \$5.9 billion was an all-time record-high. Four of our 6 regions, EMEA, APAC, China and Mexico, set volume point records in 2018. Although, Mexico was aided by approximately 180 basis points from the previously discussed volume point value adjustments.

With respect to earnings, related to the U.S. tax reform, the company recorded a noncash charge of approximately \$29.5 million. This represents an additional valuation allowance on foreign tax credit carryforwards, resulted from the finalization of the provisional charge within the 1-year measurement period together with the further guidance release by the Treasury Department in Q4. Due to this noncash charge during the quarter, we've reported a net income of approximately \$48.9 million or \$0.34 per diluted share. For the fourth quarter, adjusted earnings per adjusted diluted share were \$0.63.

Note that our adjusted results include expenses related to the China Growth and Impact Investment Program of approximately \$8.2 million or \$0.04 per share that was excluded from our guidance. Despite our adjusted EPS, including these expenses, that were excluded from our guidance, we still exceeded the high end of our guidance range of \$0.60 per share. As a reminder, these expenses, while fungible, are effectively funded by China grants that have already been excluded from our adjusted results. These expenses were not incurred during the comparable period for the fourth quarter 2017 and are not included in our future guidance.

Additionally, our adjusted EPS figures continue to exclude items we consider to be outside of normal company operations (where) we believe will be useful to investors when analyzing period-over-period comparisons of our results. Please refer to our fourth quarter 2018 earnings press release for additional details on these adjustments. The impact of currency fluctuations represented a year-over-year headwind of approximately \$0.06 per share on results for the fourth quarter and approximately \$0.05 per share on a full year basis.

Reported gross margin for the fourth quarter of 81 percent increased by approximately 20 basis points compared to the prior year period. The increase was primarily driven by the favorable impact of retail price increases and

country mix, partially offset by unfavorable cost changes related to self manufacturing and strategic sourcing and the negative impact of foreign currency fluctuations. Fourth quarter 2018 reported and adjusted SG&A as a percentage of net sales were 40.9 percent and 40.6 percent, respectively. Excluding China member payments, adjusted SG&A as a percentage of net sales was 30 percent, approximately 40 basis points higher than the fourth quarter 2017, primarily driven by the timing of event spending, where a large distributor event which was held in Q3 of 2017 was held in the fourth quarter of 2018.

Our fourth quarter reported effective tax rate was approximately 57 percent and was primarily driven by the previously mentioned valuation allowance of \$29.5 million. Our adjusted effective tax rate was 26.4 percent, which was lower than our expectations, primarily, due to the impact of the (geomix).

Turning to full year 2018 reported net income was \$296.6 million or \$1.98 per diluted share compared to reported net income of \$213.9 million or \$1.29 per diluted share for the full year 2017. Two-thousand-eighteen adjusted diluted EPS was \$2.88 per adjusted diluted share, reflecting a 19 percent increase compared to the \$2.43 per diluted share for the full year 2017.

Our business generated substantial cash flow from operations in 2018; \$648 million in cash flow from operations represents an approximate 10 percent increase from the \$591 million generated in 2017; 2018 reported and adjusted results were negatively impacted by expenses of approximately \$14 million or \$0.07 per share related to the China Growth and Impact Investment Program. As well as approximately \$0.05 per share from foreign currency fluctuation. Our full year adjusted tax rate of 24.8 percent benefited by approximately 260 basis points or \$0.10 per adjusted diluted share due to excess tax benefits in the exercise of equity grants. As a reminder, our 2019 guidance does not include any future potential tax effects from equity grants that could benefit our tax rate.

Now let me shift to review of our regional and market highlights. The strength of the U.S. business continued into the fourth quarter with volume increasing by 12 percent compared to the fourth quarter of 2017. We ended 2018 with

year-over-year growth in every single quarter. The 2K supervisor qualification pilot continues to help drive distributor engagement that has been extended until the end of 2019. Last quarter, we started testing a small volume point value change on a few products. These tests benefited the comparison in the quarter by approximately 180 basis points.

In China, our Q4 volume points increased by 4 percent. Although, we did experienced growth in the quarter, the rate decelerated from our prior 2 quarters results as the comparison was more challenging this quarter.

Turning to Mexico, volume points grew by 10 percent and recorded the largest fourth quarter in Mexico's history. The volume point value changes we discussed last quarter benefited the comparison in the quarter by approximately 180 basis points. The active member of program continued to help fuel the market with new member activity and productivity rates, both increasing as it compared to the prior year period. The Asia Pacific region reported a 30 percent year-over-year increase, which was the fourth quarter in a row the region has set a new all-time record-high volume point performance. The EMEA region grew by 11 percent in the fourth quarter, taking the number of consecutive quarters with growth in EMEA up to 35. The volume point growth in the quarter was led by Spain, Turkey and South Africa, all of which grew over 20 percent.

Let me now move ahead to guidance. For the full year 2019, much of our guidance remains unchanged from the guidance provided last quarter. That sales guidance increased slightly and we're now expecting to grow in a range of 4 percent to 8 percent, up from the previous range of 2.8 percent to 6.8 percent. For the first quarter of 2019, we estimate net sales to be within a range of 0.5 percent to 4.5 percent growth, which reflects an approximate 600 basis point currency headwind. Volume point growth is expected to be in the range of 4 percent to 8 percent.

First quarter reported diluted EPS is estimated to be in a range of \$0.51 to \$0.61 and adjusted diluted EPS guidance is estimated to be in a range of \$0.60 to \$0.70 per share. Capital expenditures for the first quarter are expected to be within a range of \$30 million to \$40 million. And first quarter effective tax

rate guidance is expected to be between 30 percent and 34 percent on a reported basis, and 27 percent to 31 percent on an adjusted basis.

I'll now turn the call over to Dr. John Agwunobi to review some of the strategic highlights from the quarter.

John O. Agwunobi: Thank you, John.

After our last earnings call, we hosted many of you at our Investor Day in New York. Over the course of that meeting, we spoke in detail about the key strategies we believe are the growth engines for our business. Let me provide an update on our product, technology and distributor difference strategy.

In my role as Co-President and Chief Health and Nutrition Officer, one of my priorities is to ensure that the products we offer to our distributors are science-based and fit within our global nutrition philosophy. I take pride in our product strategy and how we are providing our distributors the opportunity to sell more products to existing customers, appealing to new customers, and attracting new distributors.

An example of this was the introduction of our new high-protein iced coffee, which many of you sampled at Investor Day. Our ice coffee drink mix has only 2 grams of sugar per serving and it gives consumers a protein- and energy-packed way to start their day, enjoy an afternoon pick me up or savor an evening treat. At Investor Day, you were also able to see firsthand our distributors' excitement around this new product category and to hear how they use this product to attract new customers as well as create an incremental sale to existing customers by fulfilling a brand-new (daypart). In addition to coffee, around the globe, we launched approximately 100 new products in the fourth quarter, bringing our total number of new products launched in 2018 to over 250.

At Investor Day, we also detailed our technology strategy, which is focused on building on our robust back-end infrastructure and developing front-end tools designed to help our distributors improve their productivity and profitability, while increasing distributor to customer connectivity. It also

enhances customer experience with a high-touch and high-tech set of solutions.

For our Nutrition Clubs, we developed a number of enhanced technologies for both operators and consumers. This suite of tools will make it easier to own and operate a nutrition club by helping operators set up, manage, and grow their nutrition club businesses. The distributor facing tool is expected to be released in May of 2019. We're also developing a customer-facing nutrition club app, customers will be able to stay connected with their nutrition club and their distributors, browse the club menu and just like your favorite coffee house or restaurant, they will be able to preorder right off the menu. Their favorite shake tea, aloe or other drink or snack will be waiting for them when they arrive. The customer app is scheduled to be released in July at our North American extravaganza.

Additionally, in January, we launched a full release of HN-connect to our entire U.S. distributor base. To ensure our distributors are educated on how to take advantage of the tool's robust capabilities, we also announced upcoming training webinars for the tool in February. Even with our focus on products and technology, I believe Herbalife Nutrition is a people business, a relationship business. Our distributors invite their customers to be a part of our community, part of a team that can help them achieve their desired results. It's more than just selling products.

At the end of the day, our distributors sell results. And this is our biggest competitive advantage. We call it the distributor difference. As a company, it's our responsibility to support our distributors with not only technology, tools and some of the world's finest high-quality products, but also, with education and training, they need that training to effectively sell the products with success. One way we do this is by providing world-class training led by some of the industry's leading experts at our sales events. We recently hosted several events for our future distributor leaders in Mexico, in Las Vegas and in Miami in order to share best practices and learnings as well as to inspire and motivate. One thing that is evident at these events is the success we are seeing in our distributors progressing up our marketing plan.

Our tremendous marketing plan performance in 2018 is a testament to our corporate and distributor leadership. We had the second highest number of new President's team qualifiers globally in our history and highest in the last 5 years. In the U.S, and in India, we are seeing extremely high levels of distributor engagement, which we believe is an indication that we can continue to implement segmentation successfully in markets where our distributors want it. Segmentation provides Herbalife Nutrition and our distributors with improved visibility to those who join to pursue the business opportunity or to those who join simply to access the products at a discount.

We believe there are numerous additional benefits of segmentation, including an improved customer experience through personalized, product-oriented communication, a simple low-cost sign-up and a natural progression for those who eventually choose to become business builders. In fact, in December 2018, we launched segmentation in Italy, and have plans to implement the same in Brazil in the second quarter of this year.

Finally, today we announced record retention results for the last 12 months requalification period ending in January of 2019. The approximately 68 percent retention rate is reflective of the ongoing sustainability of our business, and the opportunity we offer to our distributors. As you can tell, I'm extremely excited about the future and I'm optimistic about where we are going.

This concludes our prepared remarks. Operator, please open the lines for questions.

Operator: As a reminder, ladies and gentlemen, if you'd like to ask an audio question, you may do so by pressing "star" followed by the number "one" on your telephone keypad. Again, that's "star," "one" to ask an audio question over the phone lines.

Our first question is from the line of Tim Ramey from Pivotal Research Group.

Timothy Scott Ramey: Thanks so much. Couple of quick questions. Dr. John, I was struck by the number of new products you said you announced, and it almost

seems like the number's too big. I mean, I don't know how many that comes down to in any one market. I'm hoping you are not asking the distributors in market X to learn 100 new things. Tell me about your ability to get people to focus on that number of new products.

John O. Agwunobi: Yes, Tim, thanks for your question. Just to allay any concern you might have, the numbers actually spread around the entire world; it's not in any 1 market obviously. A lot of it was flavor extensions in countries that needed more flavors either seasonally or to match up their specific cultural and social needs. But there were some obviously, there were some really big new products that were new to the entire portfolio, coffee we've mentioned, the couple of flavors there. So as you know, we tend to count different flavors as - - each as a different SKUs or different numbers.

Timothy Scott Ramey: It sounds good. And then, John on the 2K qualification, I was not aware that there was a sunset to that; maybe I missed that at some point. Has that always been the plan that this was not the new way of going forward for the duration?

John G. DeSimone: Yes, look it doesn't mean it won't be the new way. Generally, when we do anything that's a qualification change, we do it as a promotion in order to test if there any unintended consequences and make sure we accomplish what we want to accomplish. So we just got another year under our belt. So I wouldn't say that means we don't expect it to be permanent, but we have not yet implemented this program as we go through one more year of results and see how (it performs).

Timothy Scott Ramey: Right. I saw this piece in the 10-K and on the 100-day program in China, I assume that had no impact on the fourth quarter since it was announced in the first quarter, but is there anything else other than comps that would explain the relatively slower growth rate in China in 4Q?

John G. DeSimone: So I'll break it into 2 buckets, first of all, Q2, and then we'll talk -- I mean Q4 excuse me -- and then I'll talk Q1. So in Q4, it was a tough comp, right. We went from a negative growth in Q3 of last year to almost the 10 percent

growth in Q4. But if you look at the 2-year stack, we're pretty comparable to where we were in Q3 and still much ahead of where we were in Q2.

But I think, I do think it primarily had to do with just people working really hard during the year and just relaxing towards the end of the year, because this is really towards the end of the year, we saw some weakness in China. So we did underperform our expectations, but I don't think it's anything systemic. Having said that, when you look into Q1, there is this 100-day program, it was not directed at us, but us and a lot of other competitors have as a result canceled most if not all of our meetings during the first quarter.

And that could and will we expect to have an impact on Q1; it doesn't change our expectations beyond Q1. I think the 100 days end some time in early April, maybe it's mid April. So Q2 should be fine and as should the rest of the year, but it (will) definitely have an impact in Q1 and it will be reflective in our performance.

Timothy Scott Ramey: Great, thanks so much.

John G. DeSimone: Thanks, Tim.

Operator: Once again, ladies and gentlemen, that's "star," "one."

And our next question from the line of Beth Kite from Citi Research.

Beth N Kite: Excellent, hi, everyone. If I may, I'll just tag on to Tim's question a little bit more. Just for the investors and the clients also to better understand, what else do you understand about this 100-day campaign in China?

John G. DeSimone: Look, I can't say that I -- you never know everything, but the way it's been explained, it was product claim based; nothing to do with our company directly, but in China, I think, their -- one of their objectives is social stability. And I think there was a lot of negative press around a product claim that brought attention to the types of products we sell, which are functional foods and healthcare products, and so that started this, and it was that negativity that just propelled the government, I believe to take a closer look at the industry, but again, it's not -- it's not Herbalife. This is the industry.

Beth N Kite: Got it. And then for the first quarter, since it is at least 30 days into this investigation by now, a little bit more, have you seen a material change in sales? Are you hoping things get better for sort of the second 2/3 of this 100-day window? Or how should we think about progressing through the first quarter versus what you've experienced and what you anticipate you might experience in China related to that?

John G. DeSimone: It's hard to tell because it started in January, and it definitely impacted January sales, but then February 5 through the 15th was China New Year, and during that time period, which just ended, our sales are always weak, and so, it's really tough to tell how it is going to bounce back. So I just -- it's our expectations that Q1 will be a challenging quarter for our China business, and again, just to clarify earlier, it is not even a direct selling channel. It's just both direct selling and not direct selling regarding products that are healthcare and functional foods.

Beth N Kite: Got it. OK, thanks. And I guess, turning forward into your full year sales growth guidance, I think, the implied is that it rose, right, both foreign exchanges to be slightly less pressure and local country sales growth (guide) has gone up. Is that right for full year 2019?

John G. DeSimone: Local sales, yes, local currency sales and reported net sales have been increased slightly, correct.

Beth N Kite: Great. And then can you tell us any particular regions that, maybe other than China, where you potentially changed your expectations for the year versus guidance in late October?

John G. DeSimone: So it would be, by the way, nothing changed materially, so let me start off there, nothing material. Generally, what happens as you finish Q4 and you've relooked at all your quarters, which is what you do provide tariff purposes and we update and there was a pretty high performance level in Q4, and so we took some things up in couple of regions, but nothing material. So you can't pinpoint this to one. It's kind of broad, pretty broad small increases offset by some minor decreases in certain regions. More of a mix issue. It didn't deliver a lot of the bottom line, it delivered about \$0.03 to the bottom line so we

didn't change our bottom line guidance from the mix change that we saw in our guidance difference between now and last quarter.

Beth N Kite: OK. Great. For 2 countries in particular, it looks like from the full year local currency sales performance in India that the fourth quarter was, again, quite strong. Can you talk to us about India. Are we, I mean, it's such a great growth here to end '18. Are we still sort of in the early days, still seeing exceptionally strong growth, when that you expect that to moderate? And then while I'm asking about countries, as well, certainly, Brazil was probably a bit of a disappointment in the fourth quarter, so kind of where do we go from here with Brazil?

John G. DeSimone: So let's start. I'm actually going to add a third country to that. So India, a great quarter, so we have segmentation in India, 50,000 new preferred members joined in the fourth quarter, which by the way was more preferred members than joined in the U.S. and the U.S. preferred member program is strong. So definitely a lot of momentum in India.

Obviously, these kinds of growth rates, not sustainable. It's going to moderate over time. I wouldn't -- strong double digits, you might get double digits a little longer, but it's going to moderate to high single digits over time in India. Brazil, yes, Brazil continues to disappoint, but hopefully, segmentation, which we launched in April, and it is April because of programming requirements, so we are programming it now. Hopefully that becomes a catalyst like, I think, the distributors in Brazil are very engaged and very motivated. Rob Levy just came back from a Brazil event last -- I believe it was last week, and he felt encouraged. So that's some opportunity in Brazil and just kind of -- to -- just throw a thank you to the distributors in Korea.

Korea, for the first time grew almost 10 percent in volume points in the quarter, so I wanted to make sure we mentioned that. Because we've talked about some of the negative performance over time and just want to celebrate the positive performance.

Beth N Kite: Excellent, great, thank you, thank you. If I could ask one more of you, John, and then one for Michael. I don't think the converts came up just now so can

you kind of give us an update -- pardon me, didn't come up in the prepared comments -- can you give us an update, are you still intending to refinance those, is there anything along the lines of the converts you can update us on?

John G. DeSimone: Yes, it's going to be pretty much the same, which is it is our intention to refinance but to be in a position to put it up should we choose to. That refinance can happen either before the convert's due or when it's due or even after it's due. It just becomes a timing issue. But from an overall leverage standpoint we have said in the past that we are comfortable with our current leverage. And if we do choose to pay it down for circumstantial reasons, then we'll just lever up after. Or we may lever up before.

It's all circumstantial based on the economics of the debt market and also the use of cash. One of the interesting things to consider, it's the purpose of the cash would be a buy back and any buyback we do now that helps the stock hurts us when converts become due because now you have to issue more stock because they are well above the convert price. So that actually creates a little bit of a premium in the purchase price when we buyback stock. So that's just another consideration to take into account.

Beth N Kite: Perfect. Thank you. And now Michael, quickly, welcome back and great to hear on the call today. Two questions for you, one, now that you are back, you have been obviously active on the Board, since you were CEO, but is there anything as you come back, that you say, hey, I'm going to tweak this, I'm going to do something a little bit differently? And then secondly, is there anything you can share with us in terms of the timeline remaining as permanent CEO?

Michael O. Johnson: Hi, Beth, good to hear your voice. The first question, pretty simple, as Chairman of the Board, I have been very involved in the company's strategy from an oversight and couldn't agree with it more. The innovation, the focus on better product, the focus on making sure our distributors have tools to grow their incomes to attract more distributors and customers and retain them, there is going to be no change in that. It's a fabulous undertaking that's taking place here, it's frankly, a revolution, I think, and an evolution in drug selling and in the business and giving incredible tools.

So I would say from a strategic standpoint, it is, let's continue to grow this company with tremendous product, we're building a great brand with making sure that tools are there for our distributors to attract more distributors and more customers, that's what makes the company grow.

As far as a timeframe, not so far. We know how to transition a CEO into this company; we've proven that pretty well. We have transitioned a lot of executives into new roles, and we are going to be prepared to do that over the next period of time, and I can't define period of time right now, but I'm excited to be here, I'm excited to be with the team, John and I were talking about it this morning, we've got over 170 years of management experience in the senior team. It's pretty amazing when you think about it, and so the bench is strong, the bench strength is even better. I'm excited helping everyone here grow their business. So thanks, Beth, that's probably a little bit of an obtuse answer, but the best you're going to get today...

Beth N Kite: I'll take it. That's all right. Sure thing. Thank you all so much. Bye.

Michael O. Johnson: Thank you.

Operator: And our next question is from Akshay Jagdale with Jefferies.

Akshay S. Jagdale: Hi, thanks for -- thanks for the question. So I want to ask about profitability in the fourth quarter, how did that fare relative to your internal estimates or targets this quarter?

John G. DeSimone: Yes, I mean pretty close to what you would expect. I mean, we were in high end of volume guidance, but within the range, but at the high end of the range, and a little above our EPS guidance, there was some tax rate benefit, but some of the other things that hit during the quarter were expected. We had little lower gross margin this quarter than last quarter. That was driven by both FX, we talked a lot about that on the call, last quarter, where there was a favorable FX impact from the timing of rolling out of inventory, that reversed in Q4. That was about a 90 basis points impact, and there was another 40 basis point impact from the new tariffs in Mexico, which we hope go away.

We are encouraged by some signs that those tariffs go away. These are retaliatory tariffs that hit in Q4. We actually are implementing a 2 percent surcharge to our distributors, which they are aware of this week to cover about 2/3 of that tariff going forward and when tariffs go away, the surcharge will, so that impacted -- but we knew that was coming to. And then, of course, there was a timing of a major event that last year happened in Q3 and this year happened in Q4, that also skews the SG&A results compared to a year ago, but we knew about that. So I think, pretty much (moving) close to expected.

Akshay S. Jagdale: Got it. So some puts and takes, but overall, in line or in the range, right. The reason I ask is, it's a bit (below) what we were expecting from a profitability standpoint for the quarter, and that's where I was coming from, but everything you mentioned was factors that you said you had anticipated, but perhaps the magnitude was within the range, but a little bit -- there's range for a reason. Is that the best way to think about it?

John G. DeSimone: Yes, I mean, there is always puts and takes. And I think when you think of currency, there's always -- moves a little more or a little less than you think; it's not an exact science. So there could have been some movement there; I don't know exactly what you modeled, but nothing that I can think of that was a major deviation from expectations.

Akshay S. Jagdale: Got it. And then, the sales growth guidance changing for '19 in FX and price mix related, can you help me understand why that, I guess, didn't have an impact on profitability per se or your outlook there? Can you help that a bit...

John G. DeSimone: ... so about half of the change, the positive change in net sales guidance is from currency, the other half is much more mix related, which doesn't always (follow) the bottom line depending on which countries. And the currency did have an impact on the bottom line of about \$0.03, but not meaningful enough to change the range. It's a pretty large range, so we kept the range the same, but that would have flown through for about \$0.03 impact.

Now the reason why it doesn't flow any more than \$0.03 is, some of the inventory's already been made, right, and it's going to flow through at today's

rates or assuming when it was made and when we have some hedges in place. It's not all going to flow through.

Akshay S. Jagdale: Got it. And then going back to China, obviously, you mentioned all the experience that you have combined. I mean, is there a precedent to what's happening there that sort of gives you a guide, your comfort level as you think about the full year and thinking about volume points and just the growth in that business for '19? I mean, it seems kind of...

John G. DeSimone: ... yes, look, I think what we experience in China is not uncommon, I mean, there has been times over the last few years, where the industry cancels meetings, and again, it's like I think the last time, it was the National Congress, there was another one where it was a focus on the industry from some local company that did something, I don't remember exactly what it was, but again, you've got to think of this in the context of China and what China is trying to accomplish, which is, of course, social stability, and so, to the extent that they want to look deeper into an industry, and then it could be product related or to a direct selling business model, they take their time to do it. I think the last time might have been 90 or 100 days and we recovered from that too, but during that time we (didn't have meetings)...

Akshay S. Jagdale: Right. And the good news is, I guess, there was a seasonal time for this to happen, this is quite a perfect time right, because this is the time when you have the lowest amount of sales, is that fair? And then what's...

John G. DeSimone: ...January and February are the lowest months of sales for China, that's correct. So from a timing standpoint, you're right.

Akshay S. Jagdale: And how do you see this resolving? I mean, what's the usual protocol like 90, 100 days like before that, do you get a sense, I mean, can this be extended or how -- when will you have a better sense of where we're headed?

John G. DeSimone: Yes. Look, again, just -- we are not a target of anything, and to be clear, right, this is just an overall industry related initiative, and again, these types of things happen in China. That's why China is still long-term, why we believe it's positive and it's spiky sometimes, and so, that's -- this is like I said, not uncommon in China, and our meeting is a meeting that's founded on our

business -- excuse me in China, it's a business founded on meetings, and so, when you don't have meetings they impact of business, but it's generally short term.

Akshay S. Jagdale: Got it. And just 1 last one. With the -- with the changes going on around the management side, I mean, how do you -- how have you communicated with the distributor community? And what's been their reaction basically trying to get a sense for like -- just is this a distraction, is this not -- how should we think about how the -- what's the feedback that you've gotten from the distributors since the change happened?

Michael O. Johnson: Mike, this is Michael. I might be a little selfish of me to respond to that, but the distribution reaction has been pretty good. There's -- they know me, they've known me for 16 years, there is a consistency that comes along with me, and the team is the same team that it's been. The unfortunate circumstances that put me here are behind us, and we go forward. I've been to Las Vegas and Mexico with our distributors. I'll be in Singapore in the next week and a half with them on the chairman club calls, founder circle club calls. There is a lot of not of change. It is kind of back in driving the same car, just at a little higher rate of speed because things have moved up and they are getting better and they run their own businesses, as you know. And a customer walking through that door today, doesn't really matter if it is -- I'm the CEO or you're the CEO, I mean it matters to the leadership, of course, because they want direction and (solidarity) and they want performance out of us and to service their business needs, but if I'm walking in nutrition club today, the CEO of Herbalife's an unknown character to anyone. So.

Akshay S. Jagdale: Got it. Thank you, I'll pass it on.

Operator: And our next question is from the line of Doug Lane From Lane Research.

Douglas Matthai Lane: Hi, everybody. Michael, while we're on the topic, where do you sit today on the timing of announcing a successor as CEO?

Michael O. Johnson: Well, Beth asked that question. I'm going to -- Doug, I don't mean to push it aside, but the same thing is, we'll get there when they get there, and we've got, as I said before, a great team, enormous amount of experience. We've

transitioned a CEO very successfully into the business before, and will do it again. So I just don't want to set a timeframe, Doug, because there is a -- I've got to work for the board, I've to work with the management team, and we've got to make sure that the decision that we make is absolutely wholesome all the way around.

Douglas Matthai Lane: I understand. Thanks. John, on Asia Pacific, I mean, that really was the region that beat my numbers the most. I know you mentioned India, and I think we've been talking about India for a few quarters now, and now Korea. Are there any other spots within Asia, it seems like a pretty handy beat at least as far as my numbers are concerned?

John G. DeSimone: Yes, Vietnam was also a terrific performing country in the quarter and some of that is because there is new regulations going into effect in January, that I think requires 8 hours of in person training or something to that effect to become a distributor so there is a lot of people signing up before that new rule went into effect. There is a little bit of pull forward from Vietnam, but overall, those are the 2 big ones. I mean, there is a lot of good performing countries in Asia, and look, not having Korea as a drag as it's been financially, from an -- I mean that just mathematically speaking -- not having that be a drag and actually contribute to the growth helps a lot too.

Douglas Matthai Lane: Right. So it sounds like it was a good number, but not necessarily -- we (shouldn't) be modeling it out carrying into 2019 here because of the -- some of these onetime issues, and what's your confidence to Korea...?

John G. DeSimone: ...I mean India grew, net sales were up 42 percent, local currency (sales up 58 percent), that's not sustainable, you can't model that, right. Vietnam had volume points up almost 60 percent, that's not going to happen, that is event-driven. India is not event driven. India has got a lot of momentum, it's got a lot of good things going, a lot of good business activity, but those numbers aren't sustainable, right...

Michael O. Johnson: And Korea is growing a solid stable business...

John G. DeSimone: ... right, Korea is almost -- from a net sales standpoint actually grew 10.3 percent from local's currency net sales, grew 12.2 percent, so double-digit sales growth for Korea is a meaningful contributor.

Now, look it's the number 9 largest country in Herbalife. So it's a meaningfully sized country, with Korea turned around -- that really helps the region too. So, I mean, there is some of what you said, (success), which is you're not going to model in Q4 growth rates going forward, but it's not as exceptional as maybe you think, I think over time. Other than Vietnam, which is event-driven -- other time growth rates will come down because these growth rates aren't sustainable, but I still think you are going to have strong growth rate.

Douglas Matthai Lane: And you are feeling good about the sustainability here in Korea?

John G. DeSimone: Yes, I mean, that's been the focus now for a few years.

Douglas Matthai Lane: OK. And then lastly, just to go back to China because it's such an important market for you and you're off to a slow start and you have got really tough comparisons in the second and third quarter, so I assume you're modeling growth in China this year, but maybe not in the double digits?

John G. DeSimone: We are modeling growth in China, this year, I won't get into whether it's single or double digits, but it's -- we are modeling growth. Again, keep your expectation for Q1 light, but we are modeling growth.

Douglas Matthai Lane: OK. Fair enough. Thanks, guys.

Operator: And our next question is from the line of Ivan Feinseth from Tigress Financial.

Ivan Philip Feinseth: Thank you for taking my call. Congratulations on the nice year-over-year and quarter-over-quarter growth.

John G. DeSimone: Thank you.

Ivan Philip Feinseth: My first question on the launch of the new coffee drink. Can you give some idea of the level of success, has this has been one of your most

successful launches, and what type of feedback have you been getting, like has it been a big driver of new distributors and new customers?

John G. DeSimone: Yes, we will say this. Our distributors remain very excited by this coffee launch, and indeed, although we've only launched in the U.S, other regions around the world are clamoring to kind of be next in line, and so we do have plans to take coffee to other regions, other countries. It's already just over 2 percent of our total U.S. sales, rather volume, and it's exceeding our expectations nicely.

Ivan Philip Feinseth: ...OK. Very good. Now, where for this past quarter, where were the strongest regions, where did you see the strongest growth for new distributors and new customers?

John G. DeSimone: ... what I think -- when you're asking where is the strongest growth, let's start with volume first and then we'll talk about some distributor metrics, right. So from a volume point, I'm going to start with the regions. America -- North America had double-digit volume growth, EMEA had double-digit, APAC almost 30 percent, Mexico had double-digits. As you know, South and Central America declined driven mostly by Brazil, but that was a weak point and China was single digit. So it was really strong broad-based growth, and even within the regions, it was very broad-based. APAC had a lot of countries that grew, so did EMEA, I think 75 percent or 80 percent of the countries in EMEA group. So it was very broad-based.

And most of the distributor metrics actually are -- underlined that growth and support it, when you think of Average Active Sales Leaders, which is one of the metrics that we value internally, almost all, everybody with the exception of China, although China had active sales that were up 31 percent in Q4 -- the growth rate decline from Q3 was up 42 percent, every other region's statistics improved sequentially. So it's very broad. In new preferred members in the U.S, it was up 22 percent, in India, it was up I think it was 50-plus percent in preferred members, which think of those as customers. Now we don't have that data everywhere, but that is an advantage in those markets where there is separate segmentation and where there is segmentation, the markets are performing really well.

Ivan Philip Feinseth: Very good. Now, as far as the new digital and technology initiatives, how are your distributors and your customers taking to that, are you seeing that drive growth? Is it working out as planned? Is it exceeding plan?

John G. DeSimone: Yes, let me speak specifically to HN-connect which was the big CRM/communication technology that was launched in phases over the last year or so here in the U.S. By the end of the third quarter in 2018, we had 6,000 distributor users signed up in the program; by the end of January of this year, so a little more than a quarter later, we are now up to 24,000 distributors signed up.

We are going to continue growing the use of -- the sign-ups rather, and our hope is that as individual distributors increasingly use the systems, it will feed the AI tool, the artificial intelligence tool, that's embedded, providing us even more feedback and even more impact in the tool. We are going to continue to roll it out, it's actually rolled out in the U.S, but continue to kind of deepen its use and its effectiveness with the use of AI tools before we then take it to other countries around the world, other markets.

Ivan Philip Feinseth: OK. Are you seeing any kind of demographic trends in new distributors and new customers, is it more younger people, older people, women, men, do you have -- are you measuring this kind of data and seeing things that are surprisingly positive, surprisingly negative?

Michael O. Johnson: With time, we will learn those levels of detail. Obviously, with 24,000 people in just the fourth quarter and little beyond, we're still kind of understanding how it is used, it's going to continue growing. We have a better sense of who the primary new person is as we start to see this over time. Give it time.

Ivan Philip Feinseth: Very good. And on the horizon, what other areas of new products do you see? Or are you looking to roll out and what kind of feedback are you getting from your distributors as far as their customers asking for help or products to address certain needs, for example?

John G. DeSimone: Let me talk about in terms of process. I'll do this quickly, OK. So we work with our distributors in developing new products. These are formal product committees, structured by country, by region, growing out to even a global look and it's through that process that we identify -- and it's push and pull, OK? We will identify stuff and bring it to them, they'll identify stuff and bring it to us and through that processes is how we launch products and we don't announce products on Investor Calls until we tell our distributors about them, so keep...

Ivan Philip Feinseth: ...I didn't mean like specific products, I just thought maybe like general areas of products?

Michael O. Johnson: I mean, we're -- clearly, we're always going to be in the business of helping people live healthier lives, sports performance and fitness. Obviously, brain health and aging are big trending fields. We're also working, as you know on trying to take coffee around the world. So there's a lots of category opportunities and lots of -- and lots of places that we have our product developers, our marketing teams, and as John mentioned, the product committees in active discussion on, but we won't obviously announce specific products in this call.

Ivan Philip Feinseth: No, I understand. All right. Thank you very much.

Operator: All right. And our next question is from the line of Hale Holden from Barclays.

Hale Holden: Good afternoon. Thanks for taking the call. I just had one question, John, I think you said in the script that you had tested a volume point value change on a few products that benefited comp on a quarter by 180 basis points, I was wondering if you could give us a little bit more color on that?

John G. DeSimone: Sure, it wasn't -- it wasn't 180 basis points for the global number, but it was 180 in a couple different markets, I think it was under 100 basis points globally -- like 70 percent, I mean, 70 basis points globally. We assign a volume point value through a product, it generally has the same value everywhere in the world, and it's through those volume point accumulations are how our distributors become eligible for their earnings. And in certain

markets, we are deviating from this standard global level to adjust to socioeconomic climate or conditions in those marketplaces, but we are doing that through tests to make sure that there are no unintended consequences. So in order to be transparent with investors, any impact from those tests, we want to make sure you know for modeling purposes, but it's strictly based on testing certain theories we have in different markets.

Hale Holden: OK. I understand. Thank you very much for the time.

John G. DeSimone: Thank you.

Operator: And next, we have a question from the line of Tim Ramey from Pivotal Research Group.

Timothy Scott Ramey: Thanks for the follow-up. So couple of things. One, (Dr. A.), on the (huge) sign up of the HN-connect, are we seeing any churn there at all? Is there -- is it too soon to see people drop using it for a couple of months and drop? Or is there anything you can report on churn rates for the...

(John O. Agwunobi): Yes, Tim, it's way too early for us to have a handle on churn. Most of those 24,000, beyond the 6,000 that were already in the program at the end of the third quarter, most of the 24,000 literally signed up in the month of January or thereabouts. So December and January, the last few months. So it's just way too early for us to think about churn.

We're still rolling out and teaching users all of the advantages and the kind of the strengths of the program. They are still learning it, and once again, once we've had people using the programs for a while that will then improve the artificial intelligence and the impact that these tools have on their businesses. I don't expect to have churn numbers that we can't even begin to look at for a number of months, if not through the rest of this year.

Timothy Scott Ramey: All right. And one more for John on China. There is such a discontinuity between sales growth and volume growth, and I wasn't aware of any particular price increase that you took that would have driven that that. Was that mix (in there or)...?

(John O. Agwunobi): ... it's purchasing -- it's -- yes, no, it's a great question. So it's purchasing mix, (depending on different) -- in China, different purchasers get potentially different discounts, and so when you see what you think is sales growth above and beyond what would normally be a ratio between volume points and net sales, there will be an offset in SG&A, which is why you're seeing the China member payments go up by a corresponding amount.

Timothy Scott Ramey: I think I get it, but I might take that offline. Thanks so much...

Operator: And at this time, I would like to turn the call over to back to Michael Johnson for closing remarks.

Michael O. Johnson: Thanks very much, and thanks, everyone, for being on the call today. Congratulations to team Herbalife, to our distributors, to our employees for having a great quarter, great year and not missing a beat. It's an honor to be in this seat. It always has been. And I'm tremendously proud of what this company does, our mission, our vision, our values, what -- how we go into the marketplace. It's really a spectacular mission that we show up every day helping people get healthier and the opportunity to earn a little more money. It's a spectacular company. We appreciate your support, you guys have been tremendously supportive of me, of the company, of everything that we do, we're looking forward to another great quarter and being with you, again. So thank you all very much.

Operator: Ladies and gentlemen, this does conclude the Herbalife Fourth Quarter Full Year 2018 Earnings Conference Call. We thank you for your participation and you may now disconnect.

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