

## Equity Research

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## BTIG Consumer Staples

### HERBALIFE LTD

#### Stock Trades on Sentiment; However, on Valuation/ Fundamentals, It's Undervalued; Initiate at Buy/\$55 tgt

*Great industry dynamics & strong business model, but this is not the current focus as stock continues to trade on sentiment, not fundamentals. Importantly, we're confident Herbalife isn't a pyramid scheme. However, we believe the stock will continue to trade on sentiment, so we'd approach with caution despite significant upside potential. Initiate with Buy.*

#### HLF \$38

12 month target \$55  
Upside 45%

#### BUY

52 week range \$37 - \$84  
Market Cap (m) \$3,518

- **Trades on sentiment, but shouldn't get worse.** On a fundamental view, this is an attractive business -- great margins, asset light, continued strong recruitment trends. That is clearly not the investor focus short-term, however, and stock can move 15%+ if an activist shareholder simply indicates he might say something.
- **Not a pyramid scheme but unclear if/when overhang removed.** Civil Investigative Demand (CID) from FTC in March is a request for info, not an inquiry, & we believe a negative ruling is unlikely. Distributors get no fees for recruiting, minimal start-up cost (<\$100), most income is sales to consumers, & liberal return policy. Still, nothing requires FTC to decide quickly, in keeping with past precedent, or at all, so overhang remains.
- **US slowdown may continue if not just due to policy changes.** New policies still being implemented globally, leading to a redux in 4Q & F15 guidance. US softness last 2 Qs (avg -2% organic vs 10% for 8 Qs prior) was blamed on these changes but may also reflect a shift in morale due to headlines and/or increased compliance hurdles. If either of these is at play, the declines in US organic could accelerate. We account for this with -4% organic in F15.
- **Valuation:** 50% Relative/50% DCF yields a \$55 price target

## Estimates

	1Q13 A	2Q13 A	3Q13 A	4Q13 A	FY13 A	1Q14 A	2Q14 A	3Q14 A	4Q14 E	FY14 E	FY15 E
Sales	1,124	1,219	1,214	1,269	4,825	1,263	1,306	1,256	1,187	5,012	5,004
Gross Margin (%)	79.9%	79.7%	80.4%	81.4%	80.4%	80.1%	80.3%	80.3%	81.4%	80.5%	80.5%
EBIT (Adj.)	194	204	205	198	800	222	210	188	174	794	718
Diluted EPS (Adj.)	1.27	1.41	1.41	1.28	5.37	1.50	1.55	1.45	1.33	5.84	5.61
Net Income	119	143	142	124	528	75	120	11	115	320	478

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

Adjusted values exclude one-time items.

**Please Read: Important disclosures and analyst's certification appear in Appendix**

## The Key Debate

### When Will Fundamentals Come Back in Vogue

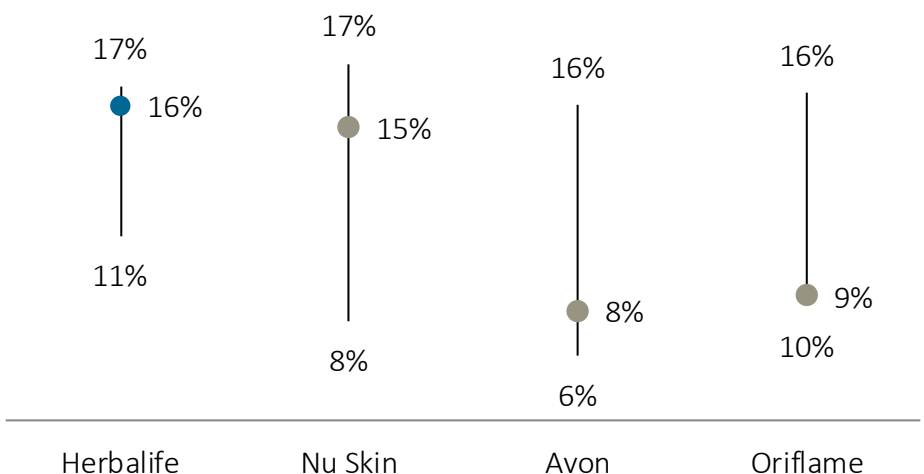
*Great industry dynamics, as obesity and health care drive consumers to improve their lifestyles/diets. Business model also strong & asset light, with more than double the margins of some MLM peers. Sales Leader growth remains robust and steps being taken (in our view) to reduce risk of FTC action & improve retention rates.*

**Industry dynamics are great.** Health & Wellness has strong industry dynamics and demographic support. Current trends toward obesity & increasing health care concerns are making consumers more mindful of lifestyle and diet. Herbalife caters to this trend, not just with its products but also the *de facto* support groups created with nutrition clubs, fit clubs etc. From a demographic perspective, we don't see this changing in the foreseeable future. If anything, the Millennial generation is more concerned with health & wellness than those prior and once they control a larger portion of investor spend we would expect industry trends (already growing high-single-digits) to further accelerate.

**Business model is strong.** Benchmarking against peers, we believe Herbalife's business model stands out with peer-leading, less volatile margins. Although we don't model any increase beyond F15, we think upside potential exists on margin expansion.

- **Peer-leading margins.** One reasons (which detractors criticize, we think unfairly) is that unlike other MLMs, Herbalife doesn't publish an expensive brochure, so cost of marketing (word of mouth) is not a cost *per se* but a reduction of revenues, given higher rewards Sales Leaders are eligible for when downlines sell.

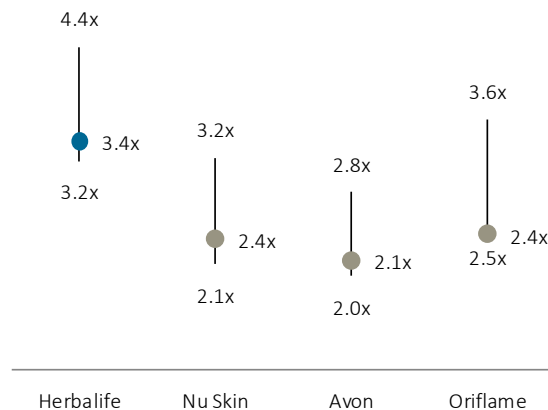
### Operating Margin: FY14E vs. 10-Yr Range



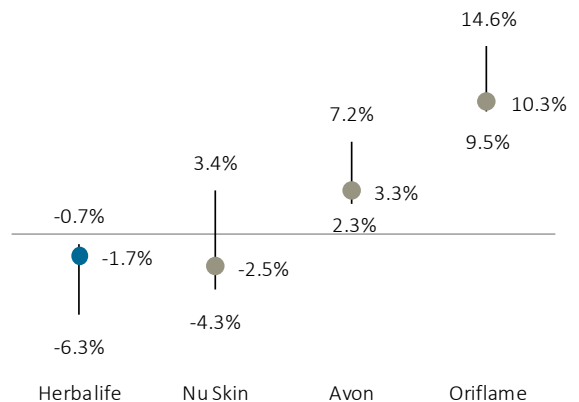
Source: Company reports, BTIG Research Estimates.

- **Asset Light.** Although Herbalife is investing heavily in its "Seed to Feed" program (to increase self-manufacturing, research, & distribution capabilities), it remains an asset light, and more efficient model v peers. Current efficiency levels are also near the bottom-end of 10-year historical range, leaving room for improvement/upside.

Sales / Capital: FY14E vs. 10-Yr Range



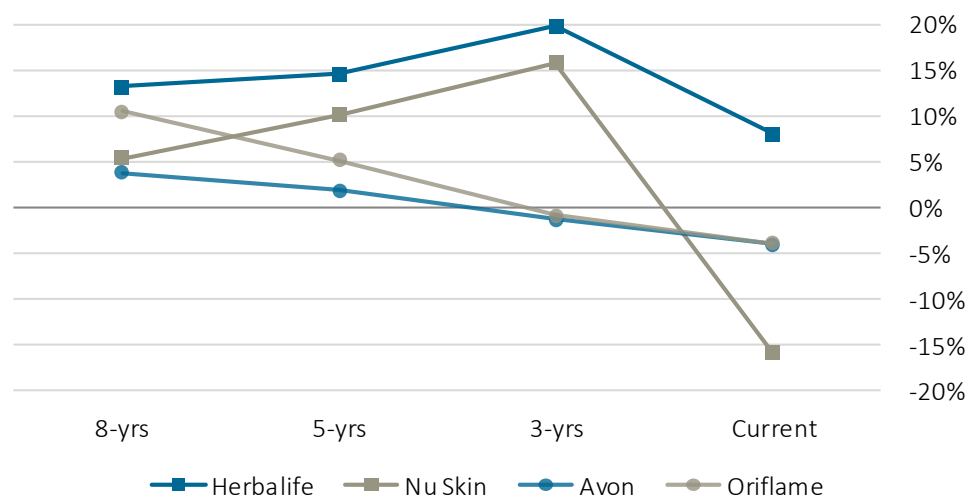
Working Cap % Sales: FY14E vs. 10-Yr Range



Source: Company reports, BTIG Research Estimates.

- **Sales Leader Growth remains strong.** Given industry dynamics, it's not surprising that Sales Leader Growth overall remains strong, but we've been surprised to see how little disruption there's been in North American Sales Leaders. Although productivity is down, Active Sales Leaders has continued to climb upwards (last 2Qs being the exception) despite headline noise & increased compliance burden.

Sales Leader: Average Annual Growth



Source: Company reports, BTIG Research Estimates. Note: HLF measures sales leaders only while peer metrics represent total sales force

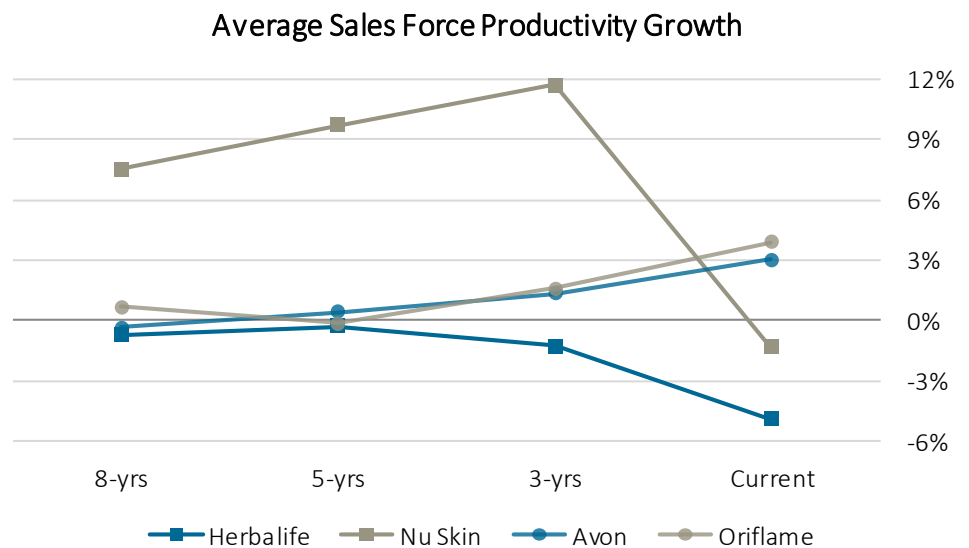
- **Retention should improve.** We believe initiatives on Sales Leader qualification (lowering 12-month volume point target, instituting first order limits) can further improve retention & keep average annual growth above peers. Making it easier to qualify incentivizes new members to build slow; & sustainably. Herbalife has already had success with the transition in Russia, where retention for first time sales leaders increased from <50% to ~75%.

**Margins rarely a topic with Herbalife but could be an opportunity.** Herbalife recently disclosed they will self-manufacture 65% of products by F16 vs 40% now. They've also

mentioned plans to invest in better packaging & promoting of products, collaborating with doctors and scientists and stressing science. It's possible Herbalife will reinvest margin benefits of self-manufacturing. However, this recent data point arouses our suspicion that there's hidden margin opportunity that could provide cushion if US results get weaker and/or are weak longer than anticipated. Herbalife has mentioned net source/supply chain savings initiatives in the past, but to the best of our knowledge, they've never had a formal cost savings program, nor have they performed a deep analysis of potential savings. Therefore, potentially all areas of cost cutting historically focused on by HPC companies are still available.

#### Concerns on fundamentals:

- **Productivity has been in a protracted decline.** Herbalife's productivity is on pace to decline for the 4<sup>th</sup> straight year and has already declined for 4 of the last 6. Our model assumes steady declines through F18.



Source: Company reports, BTIG Research estimates.

- **Historical price increases may not continue.** Herbalife has averaged ~4% annually since 2007, contributing ~30% of annual organic growth. Any slowdown could disrupt peer-leading organic growth.
- **Active Sales reps which have continued trending up, could inflect.** The streak of 4 straight years with +DD sales rep growth is likely to end in F14, and this slowdown may not be temporary. Overall, we're surprised the bad press hasn't led to more disruption, but coupled with execution risk on retention improvement efforts, a continued slowdown in sales force growth could permanently lower growth.
- **After a steady climb, margins have deteriorated over the last 2 quarters,** in conjunction with the U.S. slowdown. If sales force productivity continues to decline, we could see margins deteriorate further.

Pyramid Scheme	Herbalife
*Income mainly based on # of people you recruit/rewards unrelated to product sales to end users	*income based entirely on sales – either yours or downlines; Members are not paid for sponsoring other Members
*Required to buy lots of inventory/volume requirements	*no requirement to purchase beyond start up pack (<\$100)
*Deceptive earnings claims	* <a href="#">clear earnings claims</a>
*Must buy unwanted stuff to be in good standing	*Base level of sales to graduate to Sales Leader, but can be regained if lost
*Fee to join, most quit w/l a year & lose \$	Only fee is start up kit (money-back guarantee), hard to lose \$ especially as >70% of Members are "single level," purchasing products for own consumption
*High churn	Churn low given amount of internal consumption & recent initiatives reduce

## What and When Will FTC Decide?

*Distributors get no fees for recruiting, only cost is the Member start-up kit (<\$100, money-back guarantee), the vast majority of the income opportunity is for product sales, there's little to no incentive for inventory loading, & Herbalife has a very liberal return policy. As a result, we're confident Herbalife does not violate current FTC rules. There is, however, nothing preventing the FTC from making rules stricter & this could require significant costs for Herbalife to comply. We believe this possibility is remote (if Herbalife is deemed a pyramid scheme, so too would a swathe of the direct selling industry) but government policy is impossible to predict.*

**Herbalife vocal about its confidence any FTC action will be limited.** To the best of our knowledge, Herbalife isn't involved in settlement negotiations with regulators, yet they're confident enough they won't be charged with significant wrongdoing that they have made this opinion very public, often stated and presented as fact. It's unclear what is driving this confidence, but perhaps the same process informing our own.

**"Pyramid Scheme" – Defined (As Currently Written).** The Federal Trade Commission (FTC) considers a company a pyramid scheme if "the real way to make money isn't by selling that product but by recruiting other people to pay money for the right to sell that product." The FTC Act also prohibits "deceptive and misleading practices," which don't make typical earnings clear. We understand multi-level marketing defense attorneys typically advise clients that 80% or more of enterprise money should be directly related to sales of products or servicing of customers.

**Overhang unlikely to be lifted near-term.** Unfortunately, the FTC has no time limit for making a decision, nor does it necessarily need to make one. In any case, the high profile of this case (external pressures from activists, politicians, media, etc) is likely to extend the process beyond historical averages. As a result, even though the CID was announced 8+ months ago (more than a year post-controversy), ruling may still be far away. For reference, it took 12 months after announcing an investigation for the FTC to reach a settlement BurnLounge, and a further 3 years to get a court judgment for monetary relief. For reference, BurnLounge was a much smaller company and (in our opinion) a more straightforward case with less external scrutiny.

## Debates Within the Debate...

### the logic we've heard:

- Herbalife has a high level of internal sales (~71% of distributors buy for own use only)
  - Pyramid scheme rep income stream largely from transactions other than sales to customers
  - When a distributor buys for own use, technically this is a sale to a distributor, not a customer
  - Herbalife must be a pyramid scheme
- We disagree.

**Internal sales are, in our opinion, a sale to an end consumer/customer.** In order to be classified as a pyramid scheme, a significant portion of a distributor's income opportunity must be from recruiting (or taken to the extreme, anything other than sales to customers). While some believe Herbalife's high level of internal sales should be classified as "sales to distributors", not "sales to consumers," this is a purely semantic argument in our view. We think the FTC is unlikely to crack down on internal sales, as in essence, the consumer/distributor is a distributor in name only.

Total Member Distribution				Sales Leaders with Downline Distribution			
Sales Level	Members		Defined Opportunity for Members	Avg. Payment from Herbalife	Members		Average Gross Payment (\$000s)
	Total #	% of Total			Total #	% of Total	
Single-Level Distributors	409	78%	Wholesale pricing on products for self-consumption; sell to non-Members. <b>Company does not pay for these rewards</b>	>250K	0.2	0.3%	\$666.7
				100K - 250K	0.5	0.7	148.4
				50K - 100K	0.6	0.8	69.6
				25K - 50K	1.2	1.7	35.5
Members with a Downline	45	9	Single-Level Distributor benefits; wholesale commissions on downline purchases made directly from Herbalife (~\$105 on avg)	10K - 25K	2.1	3.0	15.6
				5K - 10K	2.7	3.8	7.1
				1K - 5K	11.9	16.7	2.2
Sales Leaders with Downline	72	14	Single & Members with Downline benefits; Multi-level comp on downline sales including royalties & bonuses	1 - 1K	40.1	56.1	0.3
				0	12.1	16.9	--
<b>Total Members</b>	<b>525</b>	<b>100%</b>		<b>Total</b>	<b>71.5</b>	<b>100.0%</b>	<b>\$5.4</b>

Source: Company website.

In reality, they are a customer purchasing a product directly from Herbalife for their own use and receiving a "distributor" discount. We will concede there's some inventory build at fitness clubs. We can neither track nor estimate this, but believe it's below any worrisome threshold. Furthermore, BurnLounge provides precedent (summary [here](#), full Appeals Court opinion [here](#)) suggesting internal consumption is a valid measure of consumer demand.

### the logic we've heard:

- churn is high, with ~70% of Distributors dropping out within a year
  - distributors churn when they lose money
  - most Herbalife distributors lose money
  - Herbalife must be a pyramid scheme
- We disagree.

**Churn in this business does not imply distributors have "lost" money.** Although we understand churn is something the FTC looks at when examining potential pyramid schemes, we aren't concerned. According to Herbalife documents and our math, 80%+ of distributors purchase for own consumption only (the 78% Herbalife states are single-level, no downline, plus a portion of the distributors who have downlines but aren't sales leaders and don't qualify for discounts). These "distributors" are likely to drop out within a year, yet "only" 67% do and, in our view, this is not really dropping out, since buying discounted product & then deactivating was the intention all along. Even if an

individual were pressured to buy, a very liberal return policy makes it virtually impossible for these distributors to lose money.

### Other Protections

**Disclosure re: potential income easily available.** Herbalife provides clear, accurate, and timely disclosures to prospective Members regarding potential income and provides realistic expectations of the business opportunity and the effort required to succeed at all levels. While past compensation disclosures didn't include information on the number of single-level members (see the 2002 disclosure [here](#)), they've always included transparency on the average gross earning opportunity for Active distributors/sales leaders. Transparency has increased further since a vocal short seller began making headlines about Herbalife (see [here](#) for the 2013 report vs. [here](#) for the 2011 report).

**No minimum purchases, low start-up costs, everything refundable.** In its "Gold Standard," Herbalife states there is no requirement to purchase sales or business tools to become a distributor other than the <\$100 Member Pack. Distributors are also not required to buy minimum volume amounts. A discount is awarded at any purchase level, while sales leaders must maintain their status to retain their 50% discount on all products.

### Modifying Biz to Prep for Possible FTC Actions

**HLF making changes to biz, we believe anticipating possible rule changes.** Herbalife has been introducing additional member training, compliance functionality, & better disclosure regarding income opportunity to better protect its members but also, we believe, in anticipation of any potential rule changes the FTC could make. As a result of these, business has temporarily slowed but Herbalife is retaining more reps than at any time during its history. Our model takes a conservative view and assumes sustained declines in sales leader growth, until ending flat by F18. We believe there is upside potential as we have confidence in the recent rep retention initiatives to sufficiently maintain sales force while attracting new reps.

**Sales leader qualification at 4K vs 5K slows growth but helps retention.** As stated above, we believe the FTC at least looks at churn when making its decisions, so reducing churn is not a bad thing, even if that churn wasn't a result of distributor losses (as we've discussed). In an effort to reduce churn, Herbalife has amended the 5K qualification for the 12-month route & now requires only 4K volume points for sales leader qualification over the same time period. The historical qualification thresholds for the 1-month route and 2-month routes were 4K & 2.5K volume points in their respective timeframes. The new rules simplify qualifications as volume point requirement is identical now, regardless of whether a distributor qualifies over a period of one month or 12. This encourages a slower ramp in the member's business (a key factor hitting US sales which will be discussed in the next section – see page 10) but it is increasing retention.

**First order limitations also help retention/reduce short-term growth.** Herbalife also initiated first order limits in Russia, China and parts of EMEA to slow distributor ramp, with the intention of reducing churn. First order limits will be rolled out globally to

nearly all markets by March 2015, after proof of concept in Russia was obtained (retention rates from 50% to ~75%).

**All sales leaders now order directly from HLF, reducing potential risk.** Sales leaders could historically buy from other distributors, and while we see nothing inherently wrong with this, at its most extreme reading, these sales would not be considered sales to customers, but rather sales to distributors (see our discussion of internal sales on page 6 as we believe the same principals apply). In our view, eliminating any payments to distributors for sources other than direct sales to consumers is smart. We don't believe this has been a material factor in the U.S. slowing (the same amount of product is still order theoretically, just from the company instead of fellow distributors).

**Liberal return policy further liberalized.** Under [current return policies](#), it appears difficult to incur losses in any way other than negligence, in our opinion, as any/all product can be returned for any/all reasons by any/all distributors within 12 months of ordering (and Herbalife pays shipping). We'd concede there's potential for prior payments to be "clawed back" if members of a Sales Leader's downline return product, but Sales Leaders are but a small percentage of the "distributor" base and this is not a "loss" *per se*, only the eradication of a gain.

Current Return Policy

→ Member Pack is fully refundable within 90-days if Membership is canceled for any reason  
→ all unopened product 100% refundable plus shipping costs for any returns within 12 months, if Membership canceled for any reason

- ▶ **All products can be sold, if not to a consumer then back to Herbalife.** Even the Member Pack is 100% refundable if a distributor decides not to pursue the earnings opportunity within 3 months of purchasing. All else is refundable up to a year. As a result, a distributor could potentially "lose" the \$60/\$95 charged for the Member Kit if it does not cancel its membership within the 3-month window (note the Member Kit doesn't even need to be sent back, facilitating refund process). Still, this is a product with value and therefore not a total loss.
- ▶ **Even open merchandise refundable, albeit must be within 30 days.** Herbalife's website clearly states they have a 30-day money-back guarantee. If dissatisfied with any *opened* purchases, one needs to simply return the unused portion within 30 days to receive a full refund. So yes, customers may end up paying for products they don't like if the value of the product return does not justify return shipping. The same, however, is true of product purchased in bricks and mortar stores, as consumers here ascribe a value to effort necessary to return the product. As a result, this is hardly unique to Herbalife

**More compliance training introduced to ensure distributor conformity.** Herbalife has moved to *mandatory* compliance training for members joining Herbalife for its business opportunity. In addition, once distributors become Sales Leaders, they're required to complete a formal company training program prior to royalty eligibility. This training includes the key do's and don'ts of direct selling. Further, all members who want to open a nutrition club are required to complete a formal company training program, with a 90 day waiting period. Also, beginning in 2014, Herbalife now requires annual recertification training as part of the requalification of sales leaders.



## Risks to FTC's CID

**On the flip side, nothing prevents a rule change & overhang may remain.** Although we're confident Herbalife does not fit the FTC's current definition of pyramid scheme, nothing prevents the FTC from making current rules stricter & there may be political incentive to do so given amount of scrutiny on Herbalife specifically & MLMs generally. If rules are changed, it's unlikely Herbalife or others could be fined for past actions that breach the new policy. Still, amending business to comply with new rules could incur significant costs. Although we believe this possibility is remote (if Herbalife is deemed a pyramid scheme, so too would a swathe of direct selling companies – there are 200+ registered members of the Direct Selling Associates and an additional amount of non-members...recall, Avon is no longer a part of this association).

**Other risks to our confidence Herbalife will not be ruled a Pyramid Scheme:** (1) FTC leadership has changed significantly since 2012 (3 of 5 commissioners appointed since then); (2) in 2012, the FTC prosecuted Fortune High Tech Marketing and banned it from MLM, the first such action in over a decade; (3) This is the first time we've seen organized protests from distributors, the first time letters have come from members of Congress, and the first time a large activist hedge fund has advanced a fraud thesis; (4) prior, we would have expressed a similar level of confidence that FTC would investigate Herbalife and obviously that did happen. We don't know what goes on behind closed doors, even less what influences government agencies, so it's possible the fact pattern is different and/or historic interpretation of law will not hold.

## The Other Debates

### Is U.S. Slowdown a Blip, or the Beginning?

*We fear that the US slowdown we've seen the last 2 Qs (average of -1% organic growth vs 12.5% for the 8 Qs prior) has been caused not just by the changes Herbalife has made to its policies (and called out by the company), but also due to a negative shift in representative morale. If we're right and this is partially a morale issue due to the very public nature of the debate on Herbalife, it's something which could potentially snowball creating bigger declines for longer than Herbalife or the market are currently anticipating.*

**Changes to biz are temporarily slowing sales, according to management.** The U.S. business has slowed meaningfully over the past 2Qs after holding up surprisingly well the prior 8 quarters, we think because the debate has been waged in the public sphere. We say surprisingly because when distributor morale is negatively impacted, a pronounced drop in sales often follows. Given the very public nature of the debate, one can assume that many if not most of Herbalife's "real" distributors (our classification of the 17% of distributors who are sales leaders with a downline) are likely to have heard about the debate and could theoretically become less likely to recruit if the future of the company is in question. The increased compliance function may also scare some away from becoming a distributor.

**We fear some slowing is rep morale, which can snowball.** The pattern that sometimes emerges is: lower morale → lower distributor sales → higher distributor turnover/lower distributor recruiting → lower sales → repeat. As a result, a simple

change in morale can have very meaningful impact on the distributor base. It's unclear to us how much of the uptick in US distributor declines during Jun/Sept-Qs is due to changed policies (which hurt the short-term but protect the health of the business) versus changes in morale, which can have repercussions that are more lasting. The change in morale could be due to the public debate but it could also be due to the sheer force of recent changes which have to some extent changed the rules of the game and require distributors to adapt their business models, a process that can take time. **Note:** *one of the many million dollar questions to which we will never have an answer is, did Ackman think Herbalife distributors would freeze as the news hit headlines? We suspect he did and was as surprised as we were that the US slowdown was delayed by ~2 years since he brought Herbalife into the public debate.*

**We're likely to see rough US results for at least the next 2Qs.** Even if the slowdown is 100% due to changed policies (we find this hard to believe), there would likely still be another 2Qs of weakness in the U.S. before we'll see a return to growth on easier comps. The increased focus on Compliance is likely to make distributors more cautious (and therefore less effective...or perhaps less likely to choose Herbalife over other MLMs) and this aspect would perpetuate beyond the four quarters necessary to rebase the business. We don't believe this is in consensus expectations, adding to any potential downside from rep morale related impacts. Herbalife thus far has only discussed the redux to Dec-Q and F15 expectations.

**Three-Day Trial Packs just launching in US after Europe success may help.** Best practices continue to expand to new markets, even though daily consumption has been a topic of conversation for as long as we can remember. The newest incarnation (for the US – it has already launched in Europe with great success) is a 3-day supply of Formula One shake and Total Control for \$11.95. Like nutrition clubs, these trial packs increase the addressable audience that can buy products and removes the barriers to consumer adoption. The US launch has been very successful thus far, exceeding initial forecasts and we would expect further global rollout of this initiative to follow.

**Daily Nutrition / Nutrition Clubs should continue to help as well.** Herbalife has been talking about Daily Nutrition/Nutrition Clubs for as long as we can remember, a trend started in Mexico that has since expanded to an increasing number of markets, with a certain degree of localization in each region. Herbalife has long said that daily consumption / nutrition clubs both help attract customers who otherwise could not afford the product & support existing users. Best practices continue to evolve with the latest Healthy Active Lifestyle initiative, which may bring additional consumers into the clubs (more of a health focus than weight loss) by expanding the addressable audience.

## Herbalife Executive Team



Michael O. Johnson  
(59), Chairman & CEO

Named CEO in 2003 &  
Chairman in 2007.



John DeSimone (47),  
CFO

Joined Herbalife in  
November 2007



Des Walsh (57),  
President  
*Source: Company filings.*

Responsibility for Distributor-  
facing functions .



Richard Goudis (52),  
COO

Responsible for infrastructure,  
operations, HR & IT.

## Guidance

Guidance for fourth quarter FY'14 includes an unfavorable impact from currency rates of approximately \$0.31 compared to the prior year, inclusive of approximately \$0.22 from Venezuela. Guidance for FY'15 includes a currency headwind of approximately \$0.66, including approximately \$0.45 from Venezuela. Based on current business trends the company's fourth quarter fiscal 2014 and full year fiscal 2015 guidance is as follows:

	Three Months Ending <u>December 31, 2014</u>		Twelve Months Ending <u>December 31, 2014</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Volume Point Growth vs 2013, ex. VZ	0.0%	3.0%	5.0%	6.0%
Volume Point Growth vs 2013	(3.0%)	0.0%	2.7%	3.5%
Net Sales Growth vs 2013	(8.0%)	(5.0%)	3.5%	4.3%
Currency Adjusted Net Sales Growth vs 2013	1.0%	4.0%	NA	NA
Diluted EPS, excluding items	\$1.30	\$1.40	\$5.80	\$5.90
Currency Adjusted EPS	\$1.61	\$1.71	NA	NA
Cap Ex (\$ millions)	\$52.0	\$62.0	\$170.0	\$180.0
Effective Tax Rate	27.0%	29.0%	27.5%	29.5%
			Twelve Months Ending <u>December 31, 2015</u>	
			<u>Low</u>	<u>High</u>
Volume Point Growth vs 2014			0.0%	3.0%
Net Sales Growth vs 2014			(1.0%)	2.0%
Currency Adjusted Net Sales Growth vs 2014			3.0%	6.0%
Diluted EPS, excluding items			\$5.45	\$5.75
Currency Adjusted EPS			\$6.10	\$6.40
Cap Ex (\$ millions)			\$145.0	\$165.0
Effective Tax Rate			27.0%	29.0%
Free Cash Flow (\$ millions)			\$470.0	\$500.0

Note: guidance excludes impact of expenses related to legal and advisory services, expenses related to FTC inquiry, and impact of non-cash interest costs on Convertible

Notes and expenses incurred related to effort to recover costs related to reaudits last year. Forward guidance based on average daily exchange rates of first two weeks of October. Included in guidance is use of GAAP rate for Venezuela of 50 to 1 for balance of year & all 2015 and excludes potential impact of future devaluation of Venezuelan Bolivar and future repatriation, if any, of existing cash balances in Venezuela.

## Risks

- ▶ Elevated volatility due to changes in investor sentiment
- ▶ Increased regulatory scrutiny
- ▶ Change in regulatory landscape leading to business model changes
- ▶ Further declines in sales leader recruitment
- ▶ Inability to take pricing at historic levels
- ▶ Continued negative publicity via high-profile short-seller
- ▶ Negative headwinds from VEN

## Valuation

**Stock not always tied to fundamentals but rather debate.** The stock can move 15% in a day, easily, if an activist investor merely indicates he will (at a future point) say something about Herbalife. Any rumors (false or otherwise) about pending FTC action would also cause an unpredictable move. From a pure valuation perspective, our stress tests suggest it's tough to see much downside in most scenarios. In our view, current market implied valuation suggests a meaningfully higher discount rate (10%+) than we use for peers, a -1.5% terminal growth rate and sustained 20bp margin declines to get back to today's trading levels.

**50% Relative / 50% DCF valuation yields a \$55 price target.**

- ▶ **\$67 relative value** assumes multiple of 12x our NTM EPS estimate of \$5.70
- ▶ **\$49 DCF value** assumes flat medium-term organic growth (off LTM-2015.09bn revenues) and average operating margin of 14-15% (off ~16% LTM-2014 EBIT margin)

**At \$39/share, we believe market discounting -LSD topline & ~14-15% op margin.**

## THESIS

**Thesis.** Great industry dynamics & strong business model but this is not the current focus as stock continues to trade on sentiment, not fundamentals. Importantly, we're confident Herbalife isn't a pyramid scheme, we believe the stock will continue to trade on sentiment, there's sufficient on valuation that even with no clear catalyst, stock looks attractive. We rate Herbalife **Buy** with a **\$55 price target**.

### Key Debates:

- 1) **When will fundamentals come back in vogue?** On a fundamental view, this is a very attractive business -- great margins, asset light, continued strong recruitment trends. But that is clearly not the investor focus in the short-term, as the stock can move 15% if an activist shareholder simply indicates he *might* say something.
- 2) **Pyramid scheme or not?** Not a pyramid scheme but unclear if/when overhang removed. Civil Investigative Demand (CID) from FTC in March is a request for info, not an inquiry, & we believe a negative ruling is unlikely. Distributors get no fees for recruiting, minimal start-up cost (<\$100), most income is sales to consumers, & liberal return policy. Still, nothing requires FTC to decide quickly, in keeping with past precedent, or at all, so overhang remain.
- 3) **Is the 2Q U.S. slowdown a blip or the beginning?** 2Q/3Q US slowdown may be beginning, not policy changes. New policies still being implemented globally, leading to a redux in 4Q & F15 guidance. US softness last 2 Qs (avg ~2% organic vs 10% for 8 Qs prior) was blamed on these changes but may also reflect a shift in morale due to headlines and/or increased compliance hurdles. If either of these is at play, we're likely to see bigger declines for longer than the company or market anticipates.
- 4) **How do you value a stock that trades on sentiment?** Short answer, you don't. But even stress testing model by assuming down 1% organic and ~25bp margin contraction p.a. beyond F14, it's tough to see downside from current levels.

### Positives/Opportunities:

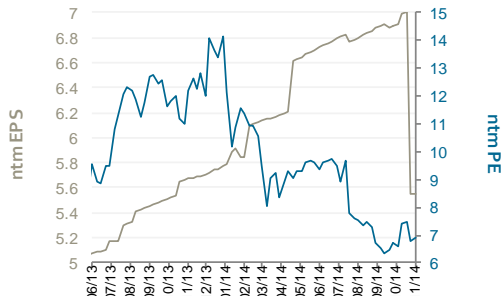
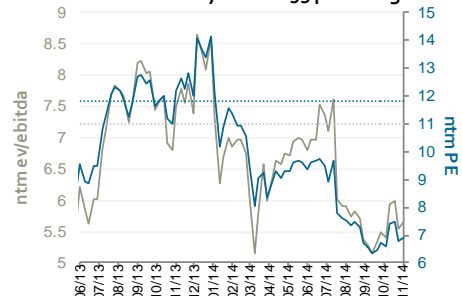
- "healthy active lifestyle" augments daily consumption methods
- continued global expansion of nutrition clubs
- successful record of R&D
- High level of internal consumption
- UK still growing 20% despite being there for ~30 years
- Significant FCF (although buybacks still restricted)
- FTC could offer a (positive) ruling on pyramid scheme

### Negatives/Risks:

- Stock not always tied to fundamentals but rather debate
- Debate around legality of MLMs
- Cost/distraction of responding to accusations
- FTC Civil Investigative Demand (CID) could take years
- Investigation could be impacting US sales trends
- Tough to assess health of channel/channel inventories
- Sales force recruitment/retention
- Fx exposure as 70% (?) of volume outside US
- Regulatory oversight on formulation, mfg, labeling, mktg

## VALUATION

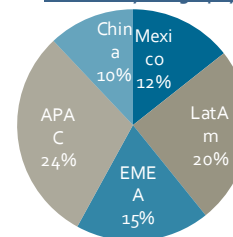
On fundamentals, it's a great biz, but stock trades mostly on sentiment. Still, you would need to assume significantly higher discount rate than peers, -ve terminal growth and declining margins beyond F14 in our DCF to get to today's levels. On that, we rate Herbalife a **Buy** with a **\$55 price target**.



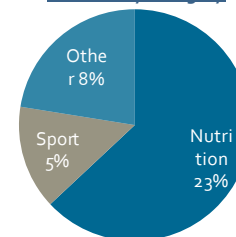
Source: Company Reports, Bloomberg, Euromonitor International (EM participation and category growth rates are both expressed in retail sales dollars), BTIG Research estimates.

## BACKGROUND

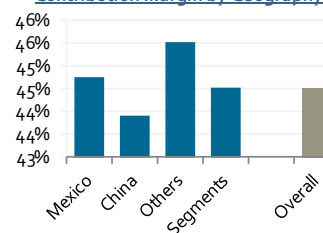
### Revenue by Geography



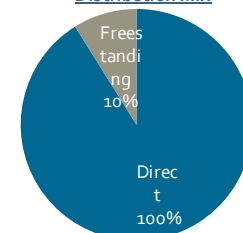
### Revenue by Category



### Contribution Margin by Geography



### Distribution Mix



**Business Mix:** Direct seller of weight management and nutritional supplements as well as energy, sports & fitness and personal/skincare products. Business has changed overtime, with increased focus today on Weight Management / meal replacement products at ~64% of the biz vs. ~45% a decade ago. Herbalife wants to capitalize on the global health and wellness trend, and McKinsey and Euromonitor both estimate ~7% growth p.a. through 2017, at which point it will be a \$1 trillion industry.

**Geography:** Well-diversified, and China's share of revenues have doubled since 2009 while Herbalife has decreased dependence on North America. Herbalife is selling now in 91 countries, with plans to open more in 2014.

**Ownership:** Carl Icahn is Long, Bill Ackman is (vocally) short. One of the most volatile names in HPC, with 42% short interest as a % of float.

**Input costs/Fx:** Largest exposures = soybeans, dairy products, plastics & transportation related costs. HLF uses long-term supply contracts and supply chain savings to help offset volatility. Fx was a 1pt headwind in CY13, but with Venezuela playing a bigger role this year we expect 4.5% headwind for CY14.

**M&A:** Acquisitions have focused mostly on facilities to improve self-manufacturing or innovation capabilities. Winston-Salem, NC (2012) and Micelle Labs in Lake Forest, CA (2009). We don't expect Herbalife to be active in M&A going forward.

						Stock Performance				EPS		NTM Multiples					Historical Multiples						Other					
						YTD		LTM		Momentum		P/E			EV/EBITDA		P/E			EV/EBITDA			DEBT	Yields		Sentiment		
	Market Cap (USD m's)	RATING	Current Price	Target	Return	YTD Δ	v. Sector	LTM Return	v. Sector	EPS 6mo Δ	Exp EPS Gr	Current P/E	PE / Growth	P/E v Hist	EV/EBITDA	v. History	AVG	HI	LOW	AVG	HI	LOW	ND/EBITDA	FCF Yld	Div Yld	% Buy	% Sell	14D RSI
<b>HPC</b>						-7%		-1%		-5%	8%	18x	2.2x	8%	11x	13%	17x	24x	8x	10x	10x	6x	1.7x	5%	2%	44%	11%	57
<b>BEV</b>						1%		14%		-3%	8%	19x	2.7x	22%	13x	25%	16x	22x	8x	10x	10x	6x	2.5x	4%	2%	39%	16%	61
ABI BB	\$179,839	Neutral	€ 89			-2%	-2%	18%	4%	-2%	6%	20x	3.2x	21%	12x	30%	16x	21x	5x	9x	9x	3x	2.5x	6%	2%	50%	10%	59
AVP	\$4,303	Buy	\$10	\$16	64%	-15%	-8%	-41%	-40%	-9%	7%	11x	1.7x	-36%	7x	-28%	18x	26x	9x	9x	9x	3x	4.4x	12%	2%	33%	0%	32
BEI GY	\$21,712	Buy	€ 69	€80	17%	-4%	4%	-6%	-5%	-2%	8%	25x	3.2x	10%	15x	19%	23x	29x	14x	13x	13x	8x	-1.6x	1%	1%	37%	22%	68
BF/B	\$19,994	Buy	\$94	\$102	10%	19%	18%	27%	13%	2%	10%	27x	2.8x	35%	18x	35%	20x	28x	12x	13x	13x	9x	0.5x	3%	1%	44%	17%	65
CARLB DC	\$13,470	Buy	kr.517	DKK708	38%	-10%	-11%	-9%	-23%	-9%	7%	13x	1.9x	-4%	9x	7%	14x	22x	5x	8x	8x	5x	2.6x	3%	1%	26%	29%	51
<b>CHD</b>	<b>\$9,930</b>	<b>Buy</b>	<b>\$74</b>	<b>\$84</b>	<b>15%</b>	<b>4%</b>	<b>12%</b>	<b>15%</b>	<b>16%</b>	<b>-1%</b>	<b>10%</b>	<b>23x</b>	<b>2.2x</b>	<b>25%</b>	<b>13x</b>	<b>30%</b>	<b>18x</b>	<b>24x</b>	<b>12x</b>	<b>10x</b>	<b>10x</b>	<b>8x</b>	<b>0.9x</b>	<b>5%</b>	<b>2%</b>	<b>42%</b>	<b>13%</b>	<b>66</b>
CL	\$61,948	Buy	\$68	\$75	12%	-1%	7%	7%	7%	-5%	9%	22x	2.4x	7%	14x	23%	20x	39x	13x	11x	11x	8x	1.2x	4%	2%	26%	3%	60
CLX	\$13,040	Neutral	\$101			-5%	2%	12%	13%	-1%	7%	22x	3.3x	23%	13x	26%	18x	29x	11x	10x	10x	8x	1.6x	5%	3%	10%	35%	60
<b>COTY</b>	<b>\$6,805</b>	<b>Buy</b>	<b>\$19</b>	<b>\$23</b>	<b>20%</b>	<b>-2%</b>	<b>6%</b>	<b>25%</b>	<b>26%</b>	<b>2%</b>	<b>9%</b>	<b>21x</b>	<b>2.3x</b>	<b>13%</b>	<b>11x</b>	<b>19%</b>	<b>19x</b>	<b>22x</b>	<b>16x</b>	<b>10x</b>	<b>10x</b>	<b>8x</b>	<b>8.4x</b>	<b>4%</b>	<b>0%</b>	<b>50%</b>	<b>7%</b>	<b>69</b>
DGE LN	\$74,916	Buy	1,905p	2,042p	10%	-7%	-8%	-3%	-18%	-10%	5%	19x	3.9x	24%	15x	23%	15x	19x	10x	12x	12x	9x	2.3x	2%	3%	38%	18%	71
EL	\$27,344	Buy	\$72	\$85	19%	-11%	-4%	0%	1%	-8%	11%	23x	2.1x	15%	12x	20%	20x	26x	10x	10x	10x	5x	0.0x	4%	1%	60%	4%	37
<b>ENR</b>	<b>\$7,732</b>	<b>Neutral</b>	<b>\$125</b>			<b>-7%</b>	<b>1%</b>	<b>21%</b>	<b>21%</b>	<b>-5%</b>	<b>6%</b>	<b>17x</b>	<b>2.9x</b>	<b>30%</b>	<b>10x</b>	<b>24%</b>	<b>13x</b>	<b>20x</b>	<b>5x</b>	<b>8x</b>	<b>8x</b>	<b>6x</b>	<b>1.8x</b>	<b>7%</b>	<b>2%</b>	<b>53%</b>	<b>0%</b>	<b>57</b>
HEIA NA	\$44,076	Neutral	€ 61			3%	2%	21%	6%	4%	12%	18x	1.5x	25%	10x	23%	15x	19x	8x	8x	8x	5x	2.7x	5%	2%	31%	17%	63
HEN3 GY	\$43,030	Neutral	€ 83			-7%	0%	3%	4%	1%	8%	18x	2.3x	20%	11x	20%	15x	19x	8x	9x	9x	6x	-0.3x	4%	1%	49%	10%	68
<b>HLF</b>	<b>\$3,518</b>	<b>Buy</b>	<b>\$38</b>	<b>\$55</b>	<b>45%</b>	<b>-27%</b>	<b>-20%</b>	<b>-43%</b>	<b>-42%</b>	<b>-22%</b>	<b>1%</b>	<b>7x</b>		<b>-45%</b>	<b>6x</b>	<b>-21%</b>	<b>13x</b>	<b>21x</b>	<b>4x</b>	<b>7x</b>	<b>7x</b>	<b>0x</b>	<b>1.8x</b>	<b>13%</b>	<b>2%</b>	<b>57%</b>	<b>0%</b>	<b>38</b>
<b>JAH</b>	<b>\$8,597</b>	<b>Buy</b>	<b>\$67</b>	<b>\$78</b>	<b>16%</b>	<b>-2%</b>	<b>5%</b>	<b>22%</b>	<b>23%</b>	<b>0%</b>	<b>12%</b>	<b>15x</b>	<b>1.2x</b>	<b>35%</b>	<b>11x</b>	<b>41%</b>	<b>11x</b>	<b>17x</b>	<b>3x</b>	<b>8x</b>	<b>8x</b>	<b>5x</b>	<b>5.4x</b>	<b>4%</b>	<b>0%</b>	<b>82%</b>	<b>6%</b>	<b>69</b>
KMB	\$42,311	Neutral	\$114			6%	13%	13%	14%	-7%	7%	19x	2.5x	28%	11x	23%	14x	19x	10x	9x	9x	7x	1.3x	5%	3%	14%	5%	68
<b>NUS</b>	<b>\$2,329</b>	<b>Neutral</b>	<b>\$39</b>			<b>-40%</b>	<b>-33%</b>	<b>-65%</b>	<b>-64%</b>	<b>-39%</b>	<b>17%</b>	<b>9x</b>	<b>0.6x</b>	<b>-32%</b>	<b>5x</b>	<b>-28%</b>	<b>14x</b>	<b>23x</b>	<b>5x</b>	<b>7x</b>	<b>7x</b>	<b>4x</b>	<b>0.0x</b>		<b>1%</b>	<b>60%</b>	<b>10%</b>	<b>33</b>
NWL	\$9,619	Buy	\$35	\$38	9%	-8%	0%	22%	22%	2%	10%	16x	1.6x	20%	11x	34%	14x	22x	4x	9x	9x	5x	2.5x	5%	2%	83%	0%	62
OR FP	\$92,752	Neutral	€ 132			-6%	1%	7%	8%	0%	8%	22x	2.7x	7%	14x	5%	21x	26x	13x	14x	14x	9x	-0.2x	4%	2%	40%	21%	69
ORI SS	\$1,017	Neutral	SEK138			-21%	-13%	-32%	-31%	1%		12x		-17%	8x	-23%	14x	20x	7x	10x	10x	6x	2.2x	6%	4%	29%	12%	58
PG	\$237,651	Buy	\$88	\$92	8%	-1%	6%	7%	8%	-4%	9%	20x	2.3x	5%	13x	19%	19x	34x	11x	11x	11x	8x	1.2x	5%	3%	45%	6%	57
RB/ LN	\$58,855	Neutral	5,230p			2%	9%	11%	11%	-1%	4%	19x	5.2x	16%	15x	20%	17x	22x	1x	12x	12x	9x	0.8x	5%	3%	32%	23%	58
RI FP	\$30,555	Neutral	€ 92			2%	1%	6%	-8%	-1%	11%	18x	1.7x	18%	13x	10%	15x	19x	8x	12x	12x	7x	3.7x	3%		44%	19%	63
SAB LN	\$88,967	Neutral	3,525p			-3%	-4%	11%	-3%	-5%	7%	21x	2.8x	28%	15x	37%	16x	22x	8x	11x	11x	6x	2.3x	4%	2%	29%	21%	56
TAP	\$14,328	Neutral	\$76			5%	4%	45%	30%	0%	5%	18x	3.8x	27%	12x	32%	14x	24x	10x	9x	9x	7x	3.2x	7%	2%	50%	0%	63
ULVR LN	\$120,369	Buy	2,616p	3,116p	23%	3%	11%	9%	10%	-1%	8%	19x	2.5x	30%	12x	20%	15x	20x	3x	10x	10x	7x	1.1x	4%	4%	23%	35%	61
	<b>\$1.2trillion</b>				<b>22%</b>	<b>-5%</b>	<b>0%</b>	<b>4%</b>	<b>0%</b>	<b>-5%</b>	<b>8%</b>	<b>18x</b>	<b>2.5x</b>	<b>12%</b>	<b>12x</b>	<b>16%</b>	<b>16x</b>	<b>23x</b>	<b>8x</b>	<b>10x</b>	<b>10x</b>	<b>6x</b>	<b>1.9x</b>	<b>5%</b>	<b>2%</b>	<b>42%</b>	<b>13%</b>	<b>59</b>

Source: Company Reports, Bloomberg, BTIG Research estimates.

Note: Upside includes projected dividend

Note: All prices in document are of November 18, 2014

HERBALIFE \$ millions	Dec-10 FY10 A	Dec-11 FY11 A	Dec-12 FY12 A	Mar-13 1Q13 A	Jun-13 2Q13 A	Sep-13 3Q13 A	Dec-13 4Q13 A	Dec-13 FY13 A	Mar-14 1Q14 A	Jun-14 2Q14 A	Sep-14 3Q14 A	Dec-14 4Q14 E	Dec-14 FY14 E	Mar-15 1Q15 E	Jun-15 2Q15 E	Sep-15 3Q15 E	Dec-15 4Q15 E	Dec-15 FY15 E	Dec-16 FY16 E	Dec-17 FY17 E	Dec-18 FY18 E
<b>Income Statement</b>																					
Net revenues	\$2,734	\$3,455	\$4,072	\$1,124	\$1,219	\$1,214	\$1,269	\$4,825	\$1,263	\$1,306	\$1,256	\$1,187	\$5,012	\$1,272	\$1,295	\$1,244	\$1,193	\$5,004	\$5,026	\$5,020	\$4,996
Cost of goods sold	546	680	813	226	247	238	236	947	251	257	247	220	976	253	255	245	222	975	979	978	973
Gross profit	2,188	2,774	3,260	898	972	975	1,033	3,878	1,011	1,049	1,009	966	4,035	1,019	1,040	999	972	4,029	4,047	4,042	4,023
Selling & admin expenses	876	1,075	1,260	340	389	397	454	1,580	408	448	457	436	1,749	429	464	471	456	1,821	1,828	1,825	1,817
Royalty overrides	900	1,138	1,339	364	380	373	381	1,498	382	391	364	356	1,492	385	387	360	358	1,490	1,497	1,495	1,488
Other operating expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT (underlying)	412	562	661	194	204	205	198	800	222	210	188	174	794	205	188	167	158	718	723	722	718
Memo item: EBITDA	480	634	736	214	225	225	219	885	243	234	212	198	888	231	217	197	187	832	856	869	877
Non-recurring items	-24	0	0	-25	-12	-12	-16	-65	-95	-14	-160	0	-269	0	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (loss) on sale of assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating profit (rptd)	388	562	661	169	192	192	182	735	128	196	28	174	526	205	188	167	158	718	723	722	718
Interest expense	-10	-9	-17	-7	-8	-7	-6	-27	-12	-15	-14	-14	-55	-13	-13	-12	-12	-50	-43	-35	-27
Interest income, net	2	7	6	1	2	2	3	8	3	3	4	4	14	4	4	4	4	15	15	15	15
Other income, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	-1	0	0	0	0	0	0	-9	-9	-20	0	-38	0	0	0	0	0	0	0	0
Profit before tax	380	560	651	164	187	187	179	717	109	175	-2	164	446	196	179	159	150	683	695	702	707
Income tax	90	148	174	45	44	45	55	189	35	55	-13	49	126	59	54	48	45	205	209	211	212
Net income	291	412	477	119	143	142	124	528	75	120	11	115	320	137	125	111	105	478	487	492	495
Minority interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income avail to common	291	412	477	119	143	142	124	528	75	120	11	115	320	137	125	111	105	478	487	492	495
Diluted share count	125	124	117	108	107	108	107	108	101	91	86	86	91	86	85	85	85	85	84	82	81
E.P.S. (reported)	\$2.33	\$3.31	\$4.06	\$1.10	\$1.34	\$1.32	\$1.15	\$4.91	\$0.74	\$1.31	\$0.13	\$1.33	\$3.51	\$1.60	\$1.47	\$1.31	\$1.24	\$5.61	\$5.81	\$5.97	\$6.10
E.P.S. (underlying)	\$2.39	\$3.32	\$4.06	\$1.27	\$1.41	\$1.41	\$1.28	\$5.37	\$1.50	\$1.55	\$1.45	\$1.33	\$5.84	\$1.60	\$1.47	\$1.31	\$1.24	\$5.61	\$5.81	\$5.97	\$6.10
<b>HERBALIFE Inc Statement Ratios</b>																					
<b>Growth Analysis (%)</b>																					
Net revenues	17.6%	26.3%	17.9%	16.5%	18.1%	19.3%	19.8%	18.5%	12.4%	7.1%	3.5%	-6.5%	3.9%	0.8%	-0.9%	-1.0%	0.6%	-0.2%	0.4%	-0.1%	-0.5%
Gross profit	19.0%	26.8%	17.5%	16.9%	17.4%	19.6%	21.8%	19.0%	12.7%	7.9%	3.5%	-6.5%	4.1%	0.8%	-0.9%	-1.0%	0.6%	-0.1%	0.4%	-0.1%	-0.5%
EBIT (underlying)	35.1%	36.6%	17.6%	25.6%	9.2%	27.2%	23.9%	20.9%	14.8%	3.0%	-8.1%	-12.0%	-0.7%	-7.7%	-10.4%	-11.1%	-9.5%	-9.6%	0.6%	-0.1%	-0.5%
Net income	42.9%	41.9%	15.8%	9.9%	7.3%	20.5%	4.8%	10.5%	-37.2%	-16.5%	-92.1%	-7.1%	-39.3%	83.6%	5.0%	892.0%	-8.8%	49.4%	1.7%	1.0%	0.7%
E.P.S. (reported)	44.8%	42.1%	22.6%	24.4%	21.8%	27.1%	9.7%	20.7%	-32.7%	-1.9%	-90.1%	15.5%	-28.4%	115.6%	12.1%	905.7%	-7.1%	59.7%	3.5%	2.7%	2.2%
E.P.S. (underlying)	45.4%	39.2%	22.3%	43.7%	28.4%	36.1%	21.9%	32.1%	18.1%	9.9%	2.8%	4.0%	8.8%	6.4%	-5.2%	-9.8%	-7.1%	-3.9%	3.5%	2.7%	2.2%
<b>Profitability (%)</b>																					
Gross profit margin	80.0%	80.3%	80.0%	79.9%	79.7%	80.4%	81.4%	80.4%	80.1%	80.3%	80.3%	81.4%	80.5%	80.1%	80.3%	80.3%	81.4%	80.5%	80.5%	80.5%	80.5%
EBIT margin (underlying)	15.1%	16.3%	16.2%	17.2%	16.7%	16.9%	15.6%	16.6%	17.6%	16.1%	15.0%	14.7%	15.8%	16.1%	14.5%	13.4%	13.2%	14.3%	14.4%	14.4%	14.4%
<b>Margin Δ (bps)</b>																					
Gross profit margin delta	96 bp	29 bp	-27 bp	23 bp	-53 bp	18 bp	135 bp	32 bp	22 bp	58 bp	-4 bp	0 bp	15 bp	0 bp	0 bp	0 bp	0 bp	0 bp	0 bp	0 bp	0 bp
EBIT margin delta	195 bp	122 bp	-3 bp	124 bp	-137 bp	104 bp	52 bp	34 bp	37 bp	-64 bp	-189 bp	-92 bp	-73 bp	-147 bp	-154 bp	-153 bp	-147 bp	-150 bp	3 bp	1 bp	0 bp
<b>Cost Analysis (%)</b>																					
Cost of goods sold	20.0%	19.7%	20.0%	20.1%	20.3%	19.6%	18.6%	19.6%	19.9%	19.7%	19.7%	18.6%	19.5%	19.9%	19.7%	19.7%	18.6%	19.5%	19.5%	19.5%	19.5%
Selling, gen & admin expenses	32.0%	31.1%	30.9%	30.3%	31.9%	32.7%	35.8%	32.8%	32.3%	34.3%	36.4%	36.7%	34.9%	33.7%	35.9%	37.9%	38.2%	36.4%	36.4%	36.4%	36.4%
Royalty overrides	32.9%	32.9%	32.9%	32.4%	31.1%	30.8%	30.0%	31.0%	30.2%	29.9%	29.0%	30.0%	29.8%	30.2%	29.9%	29.0%	30.0%	29.8%	29.8%	29.8%	29.8%
<b>Interest Rates &amp; Taxes (%)</b>																					
Interest rate on debt	4.5%	4.7%	4.8%	3.7%	3.1%	2.8%	2.4%	3.7%	3.6%	3.2%	3.1%	3.1%	4.2%	3.1%	3.1%	3.1%	3.1%	3.2%	3.2%	3.2%	3.3%
Interest yield on cash	1.3%	3.3%	2.1%	1.1%	1.0%	0.9%	1.2%	1.2%	1.0%	1.1%	2.3%	2.3%	1.7%	2.3%	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%
Reported tax rate	23.6%	26.4%	26.7%	27.3%	23.4%	24.3%	31.0%	26.4%	31.8%	31.6%	636.7%	30.0%	28.3%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Effective tax rate	26.5%	26.3%	26.7%	27.1%	23.9%	24.0%	29.6%	26.1%	28.9%	28.6%	29.8%	30.0%	29.3%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tax on exceptional items	72.8%	5.9%	0.0%	25.3%	32.2%	19.4%	14.8%	22.9%	25.7%	5.8%	36.8%	30.0%	24.6%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
<b>Dividend Policy</b>																					
Cash dividends per share	\$0.43	\$0.69	\$1.15	\$0.29	\$0.29	\$0.29	\$0.28	\$1.14	\$0.30	\$0.00	\$0.00	\$0.00	\$0.33	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend payout ratio	18%	21%	28%	23%	20%	20%	22%	21%	20%	0%	0%	0%	6%	0%	0%	0%	0%	0%	0%	0%	0%

Source: BTIG Research Estimates



HERBALIFE \$ millions	Dec-10 FY10 A	Dec-11 FY11 A	Dec-12 FY12 A	Mar-13 1Q13 A	Jun-13 2Q13 A	Sep-13 3Q13 A	Dec-13 4Q13 A	Dec-13 FY13 A	Mar-14 1Q14 A	Jun-14 2Q14 A	Sep-14 3Q14 A	Dec-14 4Q14 E	Dec-14 FY14 E	Mar-15 1Q15 E	Jun-15 2Q15 E	Sep-15 3Q15 E	Dec-15 4Q15 E	Dec-15 FY15 E	Dec-16 FY16 E	Dec-17 FY17 E	Dec-18 FY18 E
<b>Balance Sheet</b>																					
Cash & cash equivalents	\$191	\$259	\$334	\$722	\$850	\$893	\$973	\$973	\$1,262	\$774	\$678	\$641	\$641	\$687	\$699	\$671	\$644	\$644	\$646	\$644	\$640
Accounts receivable	86	90	116	112	111	110	100	100	119	104	101	94	94	120	103	100	94	94	95	94	94
Inventories	182	248	339	334	331	348	351	351	325	343	368	328	328	327	340	364	330	330	331	330	328
Other current assets	137	173	175	177	212	229	219	219	231	274	290	286	286	286	286	285	285	285	286	286	285
Current assets	596	769	964	1,346	1,504	1,579	1,643	1,643	1,936	1,495	1,437	1,348	1,348	1,420	1,428	1,420	1,354	1,354	1,358	1,354	1,346
Net property, plant, & equip	177	194	243	247	255	268	319	319	346	363	359	386	386	419	437	442	464	464	523	568	601
Goodwill & intangible assets	414	417	417	417	416	416	416	416	416	416	416	416	416	416	416	416	416	416	416	416	416
Deferred assets	20	25	32	32	31	31	32	32	54	53	51	51	51	51	51	51	51	51	51	51	51
Other non-current assets	26	41	49	48	47	49	64	64	104	108	102	102	102	102	102	102	102	102	102	102	102
Non-current assets	637	677	740	743	750	765	831	831	920	941	928	955	955	988	1,006	1,011	1,033	1,033	1,092	1,137	1,170
Total assets	1,232	1,446	1,704	2,089	2,254	2,343	2,474	2,474	2,857	2,436	2,364	2,303	2,303	2,408	2,434	2,431	2,387	2,387	2,450	2,491	2,516
Short-term debt	3	2	56	63	69	75	81	81	88	94	100	0	0	0	0	0	0	0	0	0	0
Accounts payable	255	286	352	341	387	424	462	462	439	474	452	439	439	454	483	460	454	454	455	453	450
Royalty overrides	162	198	243	222	236	253	267	267	260	253	258	250	250	262	251	255	251	251	252	251	249
Other current liabilities	51	63	65	71	100	116	112	112	116	121	118	105	105	117	120	117	105	105	105	105	104
Current liabilities	471	549	717	697	792	868	922	922	902	942	928	794	794	833	854	832	810	810	812	809	804
Long-term debt	175	202	431	913	894	875	850	850	1,761	1,744	1,728	1,696	1,696	1,666	1,588	1,534	1,465	1,465	1,221	954	670
Deferred tax liabilities	76	96	92	92	93	100	103	103	104	102	68	68	68	68	68	68	68	68	68	68	68
Other non-current liabs	23	39	43	45	41	45	47	47	48	51	62	62	62	62	62	62	62	62	62	62	62
Non-current liabilities	274	337	566	1,049	1,028	1,020	1,000	1,000	1,913	1,897	1,857	1,825	1,825	1,796	1,717	1,663	1,595	1,595	1,350	1,083	799
Capital	257	408	304	299	306	305	324	324	424	399	407	407	407	407	407	407	407	407	407	407	407
Retained earnings	257	306	148	85	172	178	247	247	-359	-780	-769	-663	-663	-519	-386	-262	-166	-166	340	850	1,364
Treasury stock	0	0	0	0	0	0	0	0	0	0	0	0	0	-50	-100	-150	-200	-200	-400	-600	-800
Reserves & other items	-27	-38	-32	-42	-44	-27	-20	-20	-22	-23	-59	-59	-59	-59	-59	-59	-59	-59	-59	-59	-59
Shareholders' equity	487	676	421	343	434	456	551	551	42	-404	-421	-315	-315	-221	-137	-64	-18	-18	288	598	912
Total liabs & equity	1,232	1,562	1,704	2,089	2,254	2,343	2,474	2,474	2,857	2,436	2,364	2,303	2,303	2,408	2,434	2,431	2,387	2,387	2,450	2,491	2,516
<b>HERBALIFE Balance Sheet Ratios</b>	<b>Dec-10 FY10 A</b>	<b>Dec-11 FY11 A</b>	<b>Dec-12 FY12 A</b>	<b>Mar-13 1Q13 A</b>	<b>Jun-13 2Q13 A</b>	<b>Sep-13 3Q13 A</b>	<b>Dec-13 4Q13 A</b>	<b>Dec-13 FY13 A</b>	<b>Mar-14 1Q14 A</b>	<b>Jun-14 2Q14 A</b>	<b>Sep-14 3Q14 A</b>	<b>Dec-14 4Q14 E</b>	<b>Dec-14 FY14 E</b>	<b>Mar-15 1Q15 E</b>	<b>Jun-15 2Q15 E</b>	<b>Sep-15 3Q15 E</b>	<b>Dec-15 4Q15 E</b>	<b>Dec-15 FY15 E</b>	<b>Dec-16 FY16 E</b>	<b>Dec-17 FY17 E</b>	<b>Dec-18 FY18 E</b>
<b>Net Trading Cycle</b>																					
Receivables days	11	9	10	9	8	8	7	8	9	7	7	7	7	9	7	7	7	7	7	7	7
Inventory days	122	133	152	135	122	133	136	135	118	122	136	136	123	118	122	136	136	124	123	123	123
Payable days	65	60	62	55	56	61	61	67	61	61	59	61	59	61	61	59	61	59	59	59	59
Royalty overrides	66	63	66	56	57	62	64	65	62	59	65	64	61	62	59	65	64	61	61	61	61
Net trading cycle	2	19	35	34	18	19	18	11	4	9	20	18	10	4	9	20	18	10	10	10	10
<b>Working Capital</b>																					
Current assets (ex-cash)	\$405	\$510	\$630	\$624	\$654	\$686	\$670	\$670	\$674	\$721	\$759	\$708	\$708	\$733	\$729	\$749	\$710	\$710	\$712	\$710	\$706
Non-interest bearing liabs	468	547	661	634	723	793	841	841	814	849	828	794	794	833	854	832	810	810	812	809	804
Working Capital	-63	-37	-30	-11	-69	-107	-171	-171	-140	-127	-69	-86	-86	-100	-126	-83	-100	-100	-100	-99	-98
Working capital % of sales	-2.3%	-1.1%	-0.7%	-0.2%	-1.4%	-2.2%	-3.4%	-3.5%	-2.8%	-2.4%	-1.4%	-1.8%	-1.7%	-2.0%	-2.4%	-1.7%	-2.1%	-2.0%	-2.0%	-2.0%	-2.0%
<b>Capital Structure</b>																					
Short-term debt	\$3	\$2	\$56	\$63	\$69	\$75	\$81	\$81	\$88	\$94	\$100	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-term debt	175	202	431	913	894	875	850	850	1,761	1,744	1,728	1,696	1,696	1,666	1,588	1,534	1,465	1,465	1,221	954	670
Total debt	178	204	488	975	963	950	931	931	1,848	1,838	1,828	1,696	1,696	1,666	1,588	1,534	1,465	1,465	1,221	954	670
Other non-current liabs	23	39	43	45	41	45	47	47	48	51	62	62	62	62	62	62	62	62	62	62	62
Shareholders' equity	487	676	421	343	434	456	551	551	42	-404	-421	-315	-315	-221	-137	-64	-18	-18	288	598	912
Total capital	689	919	951	1,363	1,438	1,451	1,530	1,530	1,938	1,485	1,469	1,442	1,442	1,507	1,512	1,531	1,509	1,509	1,571	1,614	1,644
Total debt % total capital	25.9%	22.2%	51.3%	71.6%	67.0%	65.5%	60.9%	60.9%	95.3%	123.7%	124.4%	117.6%	117.6%	110.6%	105.0%	100.2%	97.1%	97.1%	77.8%	59.1%	40.8%
Cash on B/S as % sales	7.0%	7.5%	8.2%	16.1%	17.4%	18.4%	19.2%	20.2%	25.0%	14.8%	13.5%	12.8%	12.8%	13.5%	13.5%	13.5%	13.5%	12.9%	12.8%	12.8%	12.8%
Net debt	-\$12	-\$55	\$154	\$253	\$113	\$58	-\$42	-\$42	\$586	\$1,064	\$1,150	\$1,055	\$1,055	\$980	\$889	\$862	\$821	\$821	\$576	\$311	\$31
Net debt % total capital	0.0%	0.0%	25.0%	39.5%	19.2%	10.3%	0.0%	0.0%	86.7%	149.5%	145.4%	131.6%	131.6%	119.4%	109.3%	100.3%	94.9%	94.9%	62.2%	32.0%	3.0%
<b>Credit Ratios</b>																					
NBIT / net finance costs	43.0x	63.6x	40.0x	34.3x	30.7x	30.4x	30.4x	30.4x	26.0x	21.4x	17.7x	14.6x	14.6x	14.1x	14.3x	14.4x	14.7x	14.7x	17.3x	21.1x	27.6x
Net debt / EBITDA	0.0x	0.0x	0.2x	0.3x	0.1x	0.1x	0.0x	0.0x	0.6x	1.2x	1.3x	1.2x	1.2x	1.1x	1.0x	1.0x	1.0x	1.0x	0.7x	0.4x	0.0x

Source: BTIG Research Estimates



HERBALIFE	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Dec-16	Dec-17	Dec-18
\$ millions	FY10 A	FY11 A	FY12 A	1Q13 A	2Q13 A	3Q13 A	4Q13 A	FY13 A	1Q14 A	2Q14 A	3Q14 A	4Q14 E	FY14 E	1Q15 E	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16 E	FY17 E	FY18 E
<b>Cash Flow Statement</b>																					
Net income	\$291	\$413	\$477	\$119	\$143	\$142	\$124	\$528	\$75	\$120	\$11	\$115	\$320	\$137	\$125	\$111	\$105	\$478	\$487	\$492	\$495
Depreciation	69	72	74	21	21	21	22	85	21	23	24	24	93	26	28	30	30	114	133	147	158
Restructuring, net of cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock-based compensation	7	-3	-2	7	8	9	-11	14	8	9	14	-9	21	7	8	12	-8	19	19	19	19
Deferred income taxes	-25	-13	-9	-4	-4	0	-17	-25	-2	-6	-51	0	-59	0	0	0	0	0	0	0	0
Pension benefits contribution	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other items	11	14	4	10	16	-7	20	39	112	12	160	0	284	0	0	0	0	0	0	0	0
Operating cash flow	352	482	545	154	184	166	137	640	214	158	158	130	659	170	162	153	126	611	639	658	672
Accounts receivable	-8	-10	-28	3	-4	2	8	9	-18	17	-4	7	1	-26	17	3	5	-1	0	0	1
Inventories	-32	-85	-82	-2	-13	-6	-20	-40	14	-17	-56	39	-19	1	-13	-24	34	-2	-1	1	2
Accounts payable	38	44	56	-11	59	26	22	97	-6	36	-2	-13	15	15	29	-23	-6	14	1	-2	-3
Royalty overrides	16	44	42	-21	19	16	15	29	-4	-8	16	-8	-4	12	-11	4	-4	1	1	-1	-2
Other curr assets, net of liabs	14	34	35	14	-32	22	34	38	-9	-29	-10	-9	-56	12	4	-3	-12	1	-1	0	1
Net working investment	28	28	23	-16	30	60	59	133	-23	-1	-56	17	-64	14	26	-42	17	14	-1	-1	-1
Cash from operations	380	509	568	138	214	226	196	773	191	157	102	146	596	184	188	111	143	625	638	657	671
Capital expenditures	-68	-90	-122	-25	-31	-36	-55	-147	-59	-47	-34	-52	-192	-59	-47	-34	-52	-192	-192	-192	-191
Acquisitions of businesses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Disposals of assets	-1	-2	-3	0	0	0	-4	-4	-3	-4	-4	0	-12	0	0	0	0	0	0	0	0
Cash from investing	-69	-92	-125	-25	-31	-36	-59	-151	-62	-51	-39	-52	-203	-59	-47	-34	-52	-192	-192	-192	-191
Issuance (repay) debt	-72	20	280	488	-13	-12	-19	444	1,102	-19	-19	-132	933	-29	-79	-54	-68	-230	-244	-267	-284
Capital increase	32	50	41	1	0	-3	18	17	-117	5	-2	0	-114	0	0	0	0	0	0	0	0
Treasury stock	-160	-322	-557	-164	-1	-110	-31	-306	-695	-583	0	0	-1,278	-50	-50	-50	-50	-200	-200	-200	-200
Dividends	-54	-85	-135	-31	-31	-31	-30	-123	-30	0	0	0	-30	0	0	0	0	0	0	0	0
Cash from financing	-254	-338	-371	293	-45	-156	-62	31	260	-597	-21	-132	-490	-79	-129	-104	-118	-430	-444	-467	-484
Net effect of exchange rates	-17	-11	3	-17	-11	9	5	-13	-100	3	-137	0	-235	0	0	0	0	0	0	0	0
Change in cash	40	68	75	389	127	43	80	639	289	-488	-95	-38	-332	46	12	-27	-27	4	1	-2	-4
Beginning cash on B/S	151	191	259	334	722	850	893	334	973	1,262	774	678	973	641	687	699	671	641	644	646	644
Ending cash on B/S	191	259	334	722	850	893	973	973	1,262	774	678	641	641	687	699	671	644	644	646	644	640
<b>HERBALIFE</b>																					
Cash Flow Ratios	FY10 A	FY11 A	FY12 A	1Q13 A	2Q13 A	3Q13 A	4Q13 A	FY13 A	1Q14 A	2Q14 A	3Q14 A	4Q14 E	FY14 E	1Q15 E	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16 E	FY17 E	FY18 E
<b>Earnings Quality</b>																					
OCF / net income (underlying	119%	117%	114%	112%	122%	109%	100%	111%	141%	112%	126%	113%	124%	124%	129%	137%	121%	128%	131%	134%	136%
CFO / net income	128%	123%	119%	100%	142%	148%	143%	134%	126%	111%	82%	127%	112%	135%	149%	99%	137%	131%	131%	134%	136%
FCF / net income	105%	101%	94%	82%	121%	125%	103%	108%	87%	78%	54%	83%	76%	92%	112%	69%	87%	91%	92%	95%	97%
<b>Investment Rates</b>																					
NWI % sales	1.0%	0.8%	0.6%	-1.5%	2.5%	4.9%	4.7%	2.8%	-1.8%	-0.1%	-4.5%	1.4%	-1.3%	1.1%	2.0%	-3.4%	1.4%	0.3%	0.0%	0.0%	0.0%
Capex % sales	-2.5%	-2.6%	-3.0%	-2.2%	-2.6%	-2.9%	-4.3%	-3.0%	-4.6%	-3.6%	-2.7%	-4.3%	-3.8%	-4.6%	-3.6%	-2.7%	-4.3%	-3.8%	-3.8%	-3.8%	-3.8%
Cash on B/S % sales	7.0%	7.5%	8.2%	16.1%	17.4%	18.4%	19.2%	20.2%	25.0%	14.8%	13.5%	13.5%	12.8%	13.5%	13.5%	13.5%	13.5%	12.9%	12.8%	12.8%	12.8%
<b>Fixed Assets Analysis</b>																					
Capex / depreciation	99%	126%	163%	119%	146%	171%	256%	173%	275%	200%	141%	213%	205%	226%	164%	115%	174%	168%	145%	130%	121%
Depreciation % fixed assets	38.6%	38.7%	34.1%	34.3%	34.0%	32.0%	29.4%	30.2%	25.6%	26.5%	27.0%	27.0%	26.5%	27.0%	27.0%	27.0%	27.0%	26.8%	26.9%	27.0%	27.1%
Sales / net pp&e	15.4x	18.6x	18.7x	18.4x	19.4x	18.6x	17.3x	17.2x	15.2x	14.7x	13.9x	12.7x	14.2x	12.6x	12.1x	11.3x	10.5x	11.8x	10.2x	9.2x	8.5x
<b>Free Cash Flow</b>																					
Operating cash flow	\$352	\$482	\$545	\$154	\$184	\$166	\$137	\$640	\$214	\$158	\$158	\$130	\$659	\$170	\$162	\$153	\$126	\$611	\$639	\$658	\$672
Net working investment	28	28	23	-16	30	60	59	133	-23	-1	-56	17	-64	14	26	-42	17	14	-1	-1	-1
Capital expenditures	-68	-90	-122	-25	-31	-36	-55	-147	-59	-47	-34	-52	-192	-59	-47	-34	-52	-192	-192	-192	-191
Free cash flow	312	419	446	113	183	190	141	626	132	110	67	95	404	125	141	76	91	434	446	465	480
Dividend payments	-54	-85	-135	-31	-31	-31	-30	-123	-30	0	0	0	-30	0	0	0	0	0	0	0	0
Share repurchases	-160	-322	-557	-164	-1	-110	-31	-306	-695	-583	0	0	-1,278	-50	-50	-50	-50	-200	-200	-200	-200
Cash available for debt repa	99	12	-246	-83	150	49	80	196	-593	-473	67	95	-905	75	91	26	41	234	246	265	280
<b>Share Repurchase</b>																					
Cost of shares repurchased	\$150	\$308	\$528	\$162	\$0	\$109	\$25	\$296	\$686	\$581	\$0	\$0	\$1,267	\$50	\$50	\$50	\$50	\$200	\$200	\$200	\$200
Number of shares repurchase	2.9	5.5	11.0	4.0	0.0	1.7	0.3	6.0	9.9	9.8	0.0	0.0	19.7	0.8	0.8	0.8	0.7	3.1	2.8	2.6	2.4
Avg price shares repurchase	\$52.3	\$55.9	\$47.8	\$40.6	\$0.0	\$63.9	\$74.0	\$49.0	\$69.0	\$59.4	\$60.6	\$61.8	\$64.3	\$63.0	\$64.3	\$65.6	\$66.9	\$64.9	\$70.3	\$76.1	\$82.3

HERBALIFE	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Dec-16	Dec-17	Dec-18
\$ millions	FY10 A	FY11 A	FY12 A	1Q13 A	2Q13 A	3Q13 A	4Q13 A	FY13 A	1Q14 A	2Q14 A	3Q14 A	4Q14 E	FY14 E	1Q15 E	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16 E	FY17 E	FY18 E
<b>Revenue Build-Up</b>																					
Net revenues	\$2,734	\$3,455	\$4,072	\$1,124	\$1,219	\$1,214	\$1,269	\$4,825	\$1,263	\$1,306	\$1,256	\$1,187	\$5,012	\$1,272	\$1,295	\$1,244	\$1,193	\$5,004	\$5,026	\$5,020	\$4,996
% reported	17.6%	17.9%		16.5%	18.1%	19.3%	19.8%	18.5%	12.4%	7.1%	3.5%	-6.5%	3.9%	0.8%	-0.9%	-1.0%	0.6%	-0.2%	0.4%	-0.1%	-0.5%
% volume	13.9%	21.3%	20.4%	13.4%	13.5%	12.8%	12.7%	13.1%	9.2%	4.9%	0.3%	-3.0%	2.7%	1.6%	1.1%	0.7%	0.0%	0.8%	0.1%	-0.5%	-0.8%
% pricing	3.5%	1.5%	2.2%	4.1%	3.9%	7.7%	9.4%	6.3%	7.7%	5.9%	6.0%	3.3%	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% organic	17.4%	22.8%	22.6%	17.5%	17.4%	20.5%	22.0%	19.4%	16.9%	10.8%	6.3%	0.4%	8.4%	1.6%	1.1%	0.7%	0.0%	0.8%	0.1%	-0.5%	-0.8%
% currency	0.2%	3.5%	-4.7%	-1.0%	0.7%	-1.2%	-2.2%	-0.9%	-4.5%	-3.7%	-2.8%	-7.0%	-4.5%	-2.0%	-3.1%	-2.4%	0.0%	-1.9%	0.0%	0.0%	0.0%
% acquisitions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Revenue Breakout</b>																					
North America	\$614	\$699	\$841	\$221	\$248	\$229	\$210	\$908	\$248	\$251	\$223	\$208	\$930	\$234	\$245	\$217	\$202	\$897	\$868	\$847	\$831
Mexico	334	437	496	133	146	141	143	562	143	149	144	139	574	136	135	136	136	542	530	517	504
South & Central America	390	554	689	220	222	241	290	973	245	203	205	208	861	236	202	208	206	853	839	820	798
Europe, ME, Africa	528	615	628	170	186	182	198	735	211	227	204	212	855	223	244	233	244	944	1,001	1,025	1,027
Asia-Pacific	683	939	1,140	312	299	284	280	1,175	280	306	298	278	1,162	290	280	261	256	1,087	1,093	1,093	1,089
China	184	211	279	68	118	137	148	472	136	170	181	142	629	154	189	189	150	681	694	718	747
Total revenues	2,734	3,455	4,072	1,124	1,219	1,214	1,269	4,825	1,263	1,306	1,256	1,187	5,012	1,272	1,295	1,244	1,193	5,004	5,026	5,020	4,996
<b>Reported Growth</b>																					
North America	16.1%	13.8%	20.4%	5.1%	10.2%	9.5%	6.7%	7.9%	11.9%	1.2%	-2.3%	-0.9%	2.5%	-5.7%	-2.3%	-3.1%	-3.2%	-3.6%	-3.2%	-2.4%	-1.9%
Mexico	27.0%	30.8%	13.5%	13.5%	21.9%	10.8%	8.0%	13.4%	7.4%	2.1%	1.9%	-2.6%	2.1%	-4.9%	-9.5%	-5.4%	-2.1%	-5.5%	-2.3%	-2.4%	-2.5%
South & Central America	6.4%	42.0%	24.2%	32.7%	45.7%	44.0%	42.8%	41.3%	11.4%	-8.5%	-14.9%	-28.5%	-11.6%	-3.5%	-0.5%	1.4%	-0.7%	-0.9%	-1.6%	-2.4%	-2.7%
Europe, ME, Africa	4.7%	16.6%	2.1%	10.1%	15.3%	23.2%	20.0%	17.1%	24.5%	22.0%	12.5%	7.1%	16.2%	5.4%	7.3%	14.1%	15.3%	10.4%	6.1%	2.4%	0.2%
Asia-Pacific	34.2%	37.3%	21.4%	19.9%	0.9%	-1.5%	-5.3%	3.0%	-10.0%	2.4%	4.9%	-0.7%	-1.0%	3.4%	-8.5%	-12.5%	-7.8%	-6.5%	0.6%	-0.1%	-0.3%
China	21.1%	14.3%	32.1%	20.2%	53.3%	76.5%	121.2%	69.3%	98.5%	43.9%	32.6%	-4.2%	33.4%	13.4%	11.1%	4.3%	5.1%	8.3%	1.8%	3.5%	4.0%
Reported growth	17.6%	26.3%	17.9%	16.5%	18.1%	19.3%	19.8%	18.5%	12.4%	7.1%	3.5%	-6.5%	3.9%	0.8%	-0.9%	-1.0%	0.6%	-0.2%	0.4%	-0.1%	-0.5%
<b>Constant Currency Growth</b>																					
North America	15.8%	13.6%	20.5%	5.1%	10.2%	9.6%	6.9%	8.0%	12.1%	1.3%	-2.2%	-0.9%	2.6%	-5.7%	-2.3%	-3.1%	-3.2%	-3.6%	-3.2%	-2.4%	-1.9%
Mexico	19.2%	28.6%	20.4%	10.5%	12.4%	8.7%	8.6%	10.0%	12.4%	6.5%	3.5%	1.1%	5.8%	-3.0%	-5.8%	-2.7%	-2.1%	-3.4%	-2.2%	-2.4%	-2.5%
South & Central America	18.5%	36.7%	33.4%	40.5%	50.4%	53.2%	51.4%	49.0%	24.2%	7.6%	-1.1%	-7.4%	4.8%	-2.0%	4.1%	4.9%	-0.8%	1.4%	-1.6%	-2.4%	-2.7%
Europe, ME, Africa	7.1%	12.2%	9.6%	10.1%	15.4%	21.0%	18.8%	16.3%	26.3%	21.4%	15.2%	16.0%	19.6%	13.8%	15.9%	19.6%	15.3%	16.1%	6.1%	2.4%	0.3%
Asia-Pacific	26.6%	32.2%	26.0%	20.1%	0.8%	1.1%	-1.4%	4.7%	-5.0%	2.9%	2.0%	0.9%	0.1%	3.8%	-5.5%	-9.5%	-7.8%	-4.8%	0.6%	-0.1%	-0.3%
China	20.0%	9.1%	29.1%	18.5%	49.0%	70.3%	115.5%	64.7%	94.8%	45.7%	33.5%	-3.5%	33.9%	13.8%	9.4%	3.7%	5.1%	7.8%	1.9%	3.5%	4.0%
Constant currency growth	17.4%	22.8%	22.6%	17.5%	17.4%	20.5%	22.0%	19.4%	16.9%	10.8%	6.3%	0.4%	8.4%	1.6%	1.1%	0.7%	0.0%	0.8%	0.1%	-0.5%	-0.8%
<b>Organic Growth</b>																					
North America	15.8%	13.6%	20.5%	5.1%	10.2%	9.6%	6.9%	8.0%	12.1%	1.3%	-2.2%	-0.9%	2.6%	-5.7%	-2.3%	-3.1%	-3.2%	-3.6%	-3.2%	-2.4%	-1.9%
Mexico	19.2%	28.6%	20.4%	10.5%	12.4%	8.7%	8.6%	10.0%	12.4%	6.5%	3.5%	1.1%	5.8%	-3.0%	-5.8%	-2.7%	-2.1%	-3.4%	-2.2%	-2.4%	-2.5%
South & Central America	18.5%	36.7%	33.4%	40.5%	50.4%	53.2%	51.4%	49.0%	24.2%	7.6%	-1.1%	-7.4%	4.8%	-2.0%	4.1%	4.9%	-0.8%	1.4%	-1.6%	-2.4%	-2.7%
Europe, ME, Africa	7.1%	12.2%	9.6%	10.1%	15.4%	21.0%	18.8%	16.3%	26.3%	21.4%	15.2%	16.0%	19.6%	13.8%	15.9%	19.6%	15.3%	16.1%	6.1%	2.4%	0.3%
Asia-Pacific	26.6%	32.2%	26.0%	20.1%	0.8%	1.1%	-1.4%	4.7%	-5.0%	2.9%	2.0%	0.9%	0.1%	3.8%	-5.5%	-9.5%	-7.8%	-4.8%	0.6%	-0.1%	-0.3%
China	20.0%	9.1%	29.1%	18.5%	49.0%	70.3%	115.5%	64.7%	94.8%	45.7%	33.5%	-3.5%	33.9%	13.8%	9.4%	3.7%	5.1%	7.8%	1.9%	3.5%	4.0%
Organic growth	17.4%	22.8%	22.6%	17.5%	17.4%	20.5%	22.0%	19.4%	16.9%	10.8%	6.3%	0.4%	8.4%	1.6%	1.1%	0.7%	0.0%	0.8%	0.1%	-0.5%	-0.8%
<b>Volume Points</b>																					
North America	889	987	1,158	309	340	314	287	1,250	337	336	303	278	1,253	317	328	294	269	1,208	1,169	1,141	1,119
Mexico	563	705	815	206	220	219	219	864	220	231	219	211	881	214	218	213	206	851	832	811	791
South & Central America	427	570	740	220	223	245	279	966	228	206	204	228	867	223	215	214	226	879	865	844	822
Europe, ME, Africa	487	545	603	161	179	174	184	698	202	219	199	211	831	230	253	238	244	965	1,024	1,049	1,051
Asia-Pacific	724	962	1,198	320	317	296	292	1,226	302	320	305	293	1,220	313	303	275	270	1,161	1,169	1,168	1,164
China	144	154	206	48	86	97	103	334	91	119	121	102	432	104	130	125	107	466	474	491	511
Volume points	3,233	3,922	4,720	1,264	1,365	1,346	1,363	5,338	1,380	1,431	1,350	1,323	5,484	1,401	1,447	1,359	1,322	5,530	5,533	5,504	5,458
<b>Volume Growth</b>																					
North America	13.9%	11.1%	17.3%	3.6%	11.4%	9.3%	7.5%	8.0%	8.9%	-1.2%	-3.5%	-3.1%	0.3%	-5.7%	-2.3%	-3.1%	-3.2%	-3.6%	-3.2%	-2.4%	-1.9%
Mexico	14.1%	25.1%	15.7%	7.8%	7.8%	3.9%	4.7%	6.0%	6.7%	5.2%	-0.3%	-3.6%	1.9%	-3.0%	-5.8%	-2.7%	-2.1%	-3.4%	-2.2%	-2.4%	-2.5%
South & Central America	3.8%	33.3%	29.9%	33.5%	33.1%	31.8%	25.2%	30.5%	3.6%	-7.3%	-16.6%	-18.1%	-10.3%	-2.0%	4.1%	4.9%	-0.8%	1.4%	-1.6%	-2.4%	-2.7%
Europe, ME, Africa	4.3%	12.0%	10.6%	10.6%	16.1%	19.2%	17.4%	15.9%	25.4%	22.0%	14.7%	15.0%	19.1%	13.8%	15.9%	19.6%	15.3%	16.1%	6.1%	2.4%	0.3%
Asia-Pacific	26.8%	32.9%	24.6%	16.9%	1.0%	-3.1%	-4.0%	2.3%	-5.6%	1.0%	2.8%	0.1%	-0.5%	3.8%	-5.5%	-9.5%	-7.8%	-4.8%	0.6%	-0.1%	-0.3%
China	25.0%	6.7%	34.1%	16.4%	48.9%	70.6%	103.4%	61.8%	91.4%	38.0%	23.9%	-0.7%	29.6%	13.8%	9.4%	3.7%	5.1%	7.8%	1.9%	3.5%	4.0%
Volume growth	13.9%	21.3%	20.4%	13.4%	13.5%	12.8%	12.7%	13.1%	9.2%	4.9%	0.3%	-3.0%	2.7%	1.6%	1.1%	0.7%	0.0%	0.8%	0.1%	-0.5%	-0.8%

Source: BTIG Research Estimates

HERBALIFE	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Dec-16	Dec-17	Dec-18
Active Sales Leaders ('00C	FY10 A	FY11 A	FY12 A	1Q13 A	2Q13 A	3Q13 A	4Q13 A	FY13 A	1Q14 A	2Q14 A	3Q14 A	4Q14 E	FY14 E	1Q15 E	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16 E	FY17 E	FY18 E
<b>Sales Leaders Growth</b>																					
North America	13.9%	15.1%	16.4%	9.3%	9.8%	9.2%	8.1%	9.1%	8.6%	4.8%	4.2%	4.0%	5.4%	2.1%	-0.7%	-3.1%	-2.7%	-1.1%	-1.9%	-1.0%	-0.6%
Mexico	10.2%	25.2%	20.9%	14.3%	12.5%	7.5%	7.6%	10.3%	5.6%	2.7%	3.6%	0.9%	3.1%	5.8%	4.2%	0.7%	0.6%	2.8%	0.5%	0.3%	0.2%
South & Central America	3.2%	21.2%	28.7%	28.2%	30.1%	29.1%	29.1%	29.1%	18.9%	13.8%	7.1%	-1.3%	9.0%	5.6%	5.7%	2.8%	2.2%	4.1%	1.4%	0.6%	0.2%
Europe, ME, Africa	2.9%	15.1%	14.2%	11.5%	11.7%	13.1%	13.9%	12.6%	17.4%	18.1%	17.6%	15.1%	17.0%	18.3%	16.3%	13.4%	11.8%	14.8%	8.3%	4.5%	2.3%
Asia-Pacific	25.8%	34.3%	31.2%	23.3%	15.4%	9.7%	6.1%	13.1%	4.3%	5.8%	5.2%	4.7%	5.0%	8.6%	4.3%	2.4%	1.9%	4.2%	1.1%	0.4%	0.2%
China	15.7%	28.7%	32.6%	24.5%	17.8%	25.1%	38.7%	26.7%	40.3%	32.9%	23.1%	9.9%	25.0%	13.2%	-0.5%	-5.7%	-4.4%	0.2%	-2.4%	-0.9%	-0.3%
Sales leaders growth	11.5%	22.4%	22.2%	17.7%	15.4%	13.3%	13.1%	14.7%	11.1%	9.4%	7.8%	4.4%	8.0%	8.2%	5.4%	2.4%	2.2%	4.5%	1.6%	0.9%	0.5%
<b>Productivity</b>																					
North America	18.0	17.4	17.5	4.5	4.7	4.2	3.9	17.3	4.5	4.4	3.9	3.6	16.5	4.2	4.4	3.9	3.6	16.1	15.9	15.7	15.4
Mexico	14.8	14.8	14.1	3.4	3.5	3.4	3.3	13.6	3.5	3.6	3.3	3.1	13.4	3.2	3.2	3.2	3.1	12.6	12.3	12.0	11.6
South & Central America	14.8	16.3	16.5	4.2	4.1	4.1	4.2	16.6	3.7	3.3	3.2	3.5	13.7	3.4	3.3	3.2	3.4	13.3	12.9	12.6	12.2
Europe, ME, Africa	14.5	14.1	13.7	3.5	3.7	3.4	3.4	14.1	3.7	3.9	3.3	3.4	14.3	3.6	3.8	3.5	3.5	14.5	14.2	13.9	13.6
Asia-Pacific	20.2	20.0	18.9	4.7	4.5	4.1	4.0	17.1	4.2	4.3	4.0	3.8	16.2	4.0	3.9	3.5	3.4	14.8	14.8	14.7	14.6
China	21.1	17.4	17.6	4.0	6.1	6.1	5.9	22.5	5.5	6.3	6.2	5.3	23.4	5.5	7.0	6.8	5.9	25.1	26.2	27.4	28.6
Sales leader productivity	17.4	17.3	17.0	4.3	4.4	4.1	4.0	16.7	4.2	4.2	3.8	3.7	15.9	3.9	4.0	3.8	3.6	15.4	15.1	14.9	14.7
<b>Productivity Growth</b>																					
North America	0.1%	-3.5%	0.8%	-5.3%	1.5%	0.0%	-0.5%	-1.0%	0.3%	-5.8%	-7.4%	-6.9%	-4.8%	-7.7%	-1.6%	0.0%	-0.5%	-2.5%	-1.4%	-1.4%	-1.4%
Mexico	3.5%	-0.1%	-4.3%	-5.7%	-4.1%	-3.4%	-2.7%	-3.9%	1.1%	2.4%	-3.8%	-4.5%	-1.2%	-8.3%	-9.6%	-3.4%	-2.7%	-6.0%	-2.7%	-2.7%	-2.7%
South & Central America	0.6%	10.0%	0.9%	4.1%	2.3%	2.1%	-3.0%	1.0%	-12.8%	-18.6%	-22.2%	-17.1%	-17.7%	-7.3%	-1.5%	2.1%	-3.0%	-2.6%	-2.9%	-2.9%	-2.9%
Europe, ME, Africa	1.4%	-2.7%	-3.2%	-0.9%	3.9%	5.5%	3.1%	2.9%	6.8%	3.3%	-2.5%	-0.2%	1.8%	-3.8%	-0.4%	5.5%	3.1%	1.1%	-2.0%	-2.0%	-2.0%
Asia-Pacific	0.8%	-1.0%	-5.1%	-5.2%	-12.5%	-11.7%	-9.5%	-9.5%	-9.5%	-4.5%	-2.2%	-4.4%	-5.2%	-4.4%	-9.4%	-11.7%	-9.5%	-8.6%	-0.5%	-0.5%	-0.5%
China	8.1%	-17.1%	1.1%	-6.5%	26.4%	36.3%	46.7%	27.6%	36.4%	3.8%	0.7%	-9.7%	3.7%	0.6%	10.0%	10.0%	10.0%	7.6%	4.4%	4.4%	4.4%
Productivity growth	2.2%	-0.9%	-1.5%	-3.7%	-1.6%	-0.4%	-0.3%	-1.4%	-1.8%	-4.1%	-6.9%	-7.0%	-4.9%	-6.1%	-4.1%	-1.7%	-2.2%	-3.5%	-1.5%	-1.4%	-1.3%
<b>Pricing</b>																					
North America	1.9%	2.5%	3.2%	1.5%	-1.2%	0.3%	-0.6%	0.0%	3.2%	2.5%	1.3%	2.2%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mexico	5.1%	3.5%	4.7%	2.7%	4.6%	4.8%	3.9%	4.0%	5.7%	1.3%	3.8%	4.7%	3.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
South & Central America	14.7%	3.4%	3.5%	7.0%	17.3%	21.4%	26.2%	18.5%	20.6%	14.9%	15.5%	10.7%	15.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Europe, ME, Africa	2.8%	0.2%	-1.0%	-0.5%	-0.7%	1.8%	1.3%	0.4%	0.9%	-0.6%	0.5%	1.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asia-Pacific	-0.2%	-0.7%	1.4%	3.2%	-0.2%	4.2%	2.6%	2.4%	0.6%	1.9%	-0.8%	0.8%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
China	-5.0%	2.4%	-5.0%	2.1%	0.1%	-0.3%	12.1%	2.9%	3.4%	7.7%	9.6%	-2.8%	4.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pricing	3.5%	1.5%	2.2%	4.1%	3.9%	7.7%	9.4%	6.3%	7.7%	5.9%	6.0%	3.3%	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Currency</b>																					
North America	0.3%	0.2%	-0.1%	0.0%	0.0%	-0.1%	-0.2%	-0.1%	-0.2%	-0.1%	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mexico	7.8%	2.2%	-6.9%	3.0%	9.5%	2.1%	-0.7%	3.4%	-5.0%	-4.4%	-1.6%	-3.6%	-3.7%	-1.9%	-3.7%	-2.7%	0.0%	-2.1%	0.0%	0.0%	0.0%
South & Central America	-12.1%	5.3%	-9.2%	-7.8%	-4.7%	-9.2%	-8.6%	-7.7%	-12.8%	-16.1%	-13.8%	-21.1%	-16.3%	-1.4%	-4.6%	-3.5%	0.1%	-2.3%	0.0%	0.0%	0.0%
Europe, ME, Africa	-2.4%	4.4%	-7.5%	0.0%	-0.1%	2.2%	1.2%	0.8%	-1.8%	0.6%	-2.7%	-8.8%	-3.3%	-8.4%	-8.6%	-5.5%	0.0%	-5.7%	0.0%	0.0%	0.0%
Asia-Pacific	7.6%	5.1%	-4.6%	-0.2%	0.1%	-2.6%	-3.8%	-1.7%	-5.0%	-0.5%	2.9%	-1.6%	-1.2%	-0.3%	-3.1%	-3.0%	0.0%	-1.7%	0.0%	0.0%	0.0%
China	1.1%	5.2%	3.0%	1.7%	4.3%	6.2%	5.7%	4.6%	3.7%	-1.8%	-0.9%	-0.7%	-0.4%	-0.4%	1.6%	0.6%	0.0%	0.5%	0.0%	0.0%	0.0%
Currency	0.2%	3.5%	-4.7%	-1.0%	0.7%	-1.2%	-2.2%	-0.9%	-4.5%	-3.7%	-2.8%	-7.0%	-4.5%	-2.0%	-3.1%	-2.4%	0.0%	-1.9%	0.0%	0.0%	0.0%

Source: BTIG Research Estimates

HERBALIFE	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Dec-16	Dec-17	Dec-18
\$ millions	FY10 A	FY11 A	FY12 A	1Q13 A	2Q13 A	3Q13 A	4Q13 A	FY13 A	1Q14 A	2Q14 A	3Q14 A	4Q14 E	FY14 E	1Q15 E	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16 E	FY17 E	FY18 E
<b>Revenue by Region</b>																					
United States	\$595	\$677	\$817	\$216	\$242	\$224	\$200	\$881	\$234	\$245	\$218	\$208	\$906	\$234	\$245	\$217	\$202	\$897	\$868	\$847	\$831
Mexico	334	437	496	133	146	141	143	562	143	149	144	139	574	136	135	136	136	542	530	517	504
China	184	211	279	69	118	137	148	472	136	170	181	142	629	154	189	189	150	681	694	718	747
Others	1,620	2,130	2,481	706	714	712	778	2,910	750	743	713	697	2,902	749	726	702	706	2,883	2,934	2,937	2,914
Total revenues	2,734	3,455	4,072	1,124	1,219	1,214	1,269	4,825	1,263	1,306	1,256	1,187	5,012	1,272	1,295	1,244	1,193	5,004	5,026	5,020	4,996
<b>Contributing Profit (Underlying)</b>																					
United States	\$257	\$286	\$360	\$95	\$100	\$91	\$80	\$365	\$101	\$102	\$90	\$82	\$375	\$98	\$99	\$87	\$78	\$362	\$351	\$342	\$336
Mexico	132	191	206	59	64	65	64	252	61	64	64	61	251	57	57	60	59	232	227	221	215
China	78	90	127	29	53	62	64	207	63	72	75	60	269	70	78	76	62	285	290	300	312
Others	722	973	1,106	320	323	324	358	1,325	343	340	321	315	1,320	335	325	310	312	1,282	1,305	1,306	1,296
Segment operating profit	1,188	1,540	1,798	502	539	541	566	2,149	568	577	551	519	2,215	560	559	532	510	2,161	2,172	2,170	2,159
Corporate expenses	-776	-978	-1,136	-309	-335	-336	-368	-1,349	-346	-367	-363	-344	-1,420	-355	-371	-365	-352	-1,443	-1,450	-1,448	-1,441
EBIT (underlying)	412	562	661	194	204	205	198	800	222	210	188	174	794	205	188	167	158	718	723	722	718
Underlying EBIT (from I/S)	412	562	661	194	204	205	198	800	222	210	188	174	794	205	188	167	158	718	723	722	718
<b>Contribution Margin</b>																					
United States	43.2%	42.3%	44.0%	43.8%	41.2%	40.6%	40.3%	41.5%	43.0%	41.6%	41.3%	39.5%	41.4%	42.0%	40.6%	40.3%	38.5%	40.4%	40.4%	40.4%	40.4%
Mexico	39.4%	43.7%	41.4%	44.1%	44.0%	46.1%	44.8%	44.8%	43.0%	43.1%	44.7%	44.0%	43.7%	42.0%	42.1%	43.7%	43.0%	42.7%	42.7%	42.7%	42.7%
China	42.1%	42.5%	45.5%	42.5%	44.6%	45.1%	43.0%	43.9%	46.2%	42.0%	41.2%	42.2%	42.7%	45.2%	41.0%	40.2%	41.2%	41.8%	41.8%	41.8%	41.8%
Others	44.5%	45.7%	44.6%	45.3%	45.3%	45.4%	46.0%	45.5%	45.8%	45.8%	45.1%	45.2%	45.5%	44.8%	44.8%	44.1%	44.2%	44.5%	44.5%	44.5%	44.5%
Segment operating profit	43.4%	44.6%	44.1%	44.7%	44.2%	44.6%	44.6%	44.5%	45.0%	44.2%	43.8%	43.7%	44.2%	44.0%	43.2%	42.8%	42.7%	43.2%	43.2%	43.2%	43.2%
Corporate expenses	-28.4%	-28.3%	-27.9%	-27.5%	-27.5%	-27.7%	-29.0%	-28.0%	-27.4%	-28.1%	-28.9%	-29.0%	-28.3%	-27.9%	-28.6%	-29.4%	-29.5%	-28.8%	-28.8%	-28.8%	-28.8%
EBIT (underlying)	15.1%	16.3%	16.2%	17.2%	16.7%	16.9%	15.6%	16.6%	17.6%	16.1%	15.0%	14.7%	15.9%	16.1%	14.5%	13.4%	13.2%	14.3%	14.4%	14.4%	14.4%
<b>Margin Improvement</b>																					
United States	-295 bp	-87 bp	171 bp	-285 bp	-175 bp	-429 bp	-129 bp	-255 bp	-81 bp	43 bp	78 bp	-80 bp	-5 bp	-100 bp	-100 bp	-100 bp	-100 bp	-99 bp	0 bp	0 bp	0 bp
Mexico	19 bp	431 bp	-230 bp	660 bp	295 bp	305 bp	-260 bp	331 bp	-107 bp	-82 bp	-142 bp	-80 bp	-104 bp	-100 bp	-100 bp	-100 bp	-100 bp	-99 bp	0 bp	0 bp	0 bp
China	721 bp	37 bp	295 bp	-216 bp	-199 bp	-55 bp	-172 bp	-154 bp	376 bp	-254 bp	-386 bp	-80 bp	-118 bp	-100 bp	-100 bp	-100 bp	-100 bp	-95 bp	-1 bp	0 bp	0 bp
Others	123 bp	116 bp	-111 bp	90 bp	-27 bp	121 bp	186 bp	94 bp	46 bp	51 bp	-33 bp	-80 bp	-5 bp	-100 bp	-100 bp	-100 bp	-100 bp	-100 bp	0 bp	0 bp	0 bp
Segment operating profit	53 bp	114 bp	-44 bp	65 bp	-31 bp	26 bp	96 bp	39 bp	29 bp	-3 bp	-73 bp	-92 bp	-34 bp	-97 bp	-104 bp	-103 bp	-97 bp	-100 bp	3 bp	1 bp	0 bp
Corporate expenses	141 bp	9 bp	41 bp	59 bp	-107 bp	78 bp	-43 bp	-5 bp	8 bp	-62 bp	-115 bp	0 bp	-39 bp	-50 bp	-50 bp	-50 bp	-50 bp	-50 bp	0 bp	0 bp	0 bp
EBIT (underlying)	195 bp	122 bp	-3 bp	124 bp	-138 bp	105 bp	53 bp	34 bp	37 bp	-65 bp	-189 bp	-92 bp	-73 bp	-147 bp	-154 bp	-153 bp	-147 bp	-150 bp	3 bp	1 bp	0 bp

Source: BTIG Research Estimates

## Appendix

### Analyst Certification

I, April Scee, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Abhinav Kapur, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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