

## Herbalife Ltd. (NYSE:HLF) Memo- Manager Elections Spring 2014

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**Company Description-** Herbalife claims to be a legitimate global “independent distributor” of skin-care and weight management products designed to promote health. Operating in over 90 countries around the world, Herbalife states that it is a multi-level marketing corporation. However, while its employees do earn a large portion of their income off of sales and commission, they also make a disproportionate amount through recruitment of new employees. Its networking activities suggest that revenue is generated from pure recruitment and hiring of new salespeople, who must purchase the company’s products for selling, but end up hiring new salespeople themselves. This resembles a pyramid scheme. Thus, the primary distributor at the top of the corporate pyramid end up making huge revenue through the continuous, circular process of hiring salespeople and subsequent sales of products to those employees, who must sell them to customers even though sometimes it may be difficult to do so. In addition to suspicious marketing and distribution practices, the Federal Bureau of Investigation and the Federal Trade Commission have both opened separate investigations against the company. Lastly, the continued mistrust and pyramid scheme accusations of investors against the company have further tarnished its reputation, and Herbalife has also been hit with a shareholder class action lawsuit recently.



**Important Company Financial Data \***

Stock Price- \$55.10      52 Week- 34.72 - 83.51  
 EPS- 4.93                      Beta- 1.70  
 P/E Ratio- 11.19              Shares- 101.25 million  
 Range- 54.03 - 56.78      Div/Yield- 0.30/2.18  
 Volume- 3.82M/3.65M      Market Cap- 5.58 Billion

\*Numbers derived from Google Finance



### Thesis / Key Points

- **Herbalife’s products may initially seem appealing, but accumulated research have shown that it has severe side effects that consumers are just beginning to take note. Global perception of Herbalife is turning negative**
  - The company has been continuously linked with liver problems of customers who took Herbalife products
    - Products have been found to contain toxic components such as Kraska, Qua-qua, and Kompri
    - The Israeli Ministry of Health has conducted studies with regards to the Herbalife connection with liver diseases, and suggested that there is a causative relationship.
    - Patients seeking care at hospitals in Spain, Israel, Iceland, Switzerland, the US, and Argentina have all reported severe liver diseases after consuming Herbalife products. Some patients recovered after a period of withdraw, while others have had the disease continue plaguing them, unfortunately leading to death for some.
  - Various countries around the world have advised caution when consuming Herbalife products, and reports of association with hepatitis have surfaced
    - Studies conducted by medical and biology researchers at the Hadassah-Hebrew University Medical Center Israel and the University Hospital of Bern in Switzerland reveal close hepatitis relation,
    - In addition, Spain’s Ministry of Health has officially issued a statement alerting consumers to exercise caution when dealing with products from the company.
  
- **Although it may not be running blatantly illegal pyramid scheme, Herbalife does have suspicious operating activities that at least somewhat resembles a pyramid and suggests it is not a fully legitimate multi-level marketing corporation.**
  - A pyramid scheme, is a way of making profits from not selling much real commodities but rather from the continuous recruitment of salespeople.
    - Essentially, an individual makes profit by making payments and recruiting others below him, who also makes payments.
    - Whenever a recruit makes a payment or recruits more individuals that make payments, the original individual

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profits. Herbalife exhibits some resemblance in this regard.

- Bill Ackman, CEO of the hedge fund Pershing Square Capital Management, famously placed a \$1 Billion short bet on HLF in late 2012, and has consistently lobbied finance individuals to believe his argument that Herbalife is running a pyramid scheme.
- Ackman has even been lobbying government officials and federal authorities to open up an investigation into Herbalife and prove his point.
- Although the stock has consistently risen during the past year, it seems to be on a downwards path due to the combination of perceived misleading business practices, Ackman's attention, and the recent opening of investigations and lawsuits
- Herbalife employees receive compensation when they recruit new salespeople
  - In multi-level marketing companies, sales employees also receive a large portion of their salary from the number of new salespeople that they personally recruit into the company, and are not just compensated simply by the units of products they directly sell to consumers. Due to this structure, employees of the company that have served longer gain a significant advantage in that they will receive greater compensation from pure recruitment.
  - The longer they have worked, the more salespeople they will bring to work below them, and when such "newbie" purchase products to sell, the recruiters themselves earn money. However, this may mislead potential sales employees who think of a generous compensation, because the higher number of levels above a recruit, the lower his or her compensation will be; that is, how low the tier an employee belongs in will impact compensation.
- For Herbalife, the company sells massive units of products to distributors themselves, and give the perspective that they are generating income by contributing to the global macroeconomy.
  - The company's distributor allowances account for over 50% of its total payout.
  - In fact, for every 100% of a suggest retail price for a Herbalife product, around 25% are made from retail profit, while recruiting rewards account for 48%, or almost twice the retail profit percentage.
  - The most prevalent sign of a pyramid scheme is when the company actually sells more products to its own sales employees than to external customers and consumers. A common method in a pyramid scheme is to sell "training material, classes, or products to salespeople under the impression they will lead to impressive returns on investment." On the other hand, if merely selling products does not suffice in terms of generating income for salespeople, they may continuously seek to actively recruit new sales employees below them, who will also buy training materials and other products from the recruiters who attracted them, thus generating income for the recruiters in a circular fashion. In addition, the recruiters may receive some kind of bonus. When recruitment decreases, then a pyramid scheme become evident.
- Herbalife's main competitors in the consumer industry all have distinct brand awareness, with instantly recognizable brand subsidies, while specific Herbalife products are relatively uncommon
  - Church & Dwight Company, has a gross margin of 43.9, but produces distinguishable consumer products such as Arm and Hammer Baking Soda, Xtra, and the Trojan brand.
  - Energizer Holdings, Incorporated, another close competitor, also can be associated with specific goods (Energizer batteries ,Edge Shaving cream, and Playtex) and is valued with a gross margin of 46.8.
  - Lastly, The Clorox Company also holds brand names recognizable by most consumers in the U.S. (Clorox, Hidden Valey ranch, Glad food wraps, and Kingsford coal) and holds a gross margin of 42.4%.
  - Herbalife, on the other hand, does not have instantly recognizable brand products, but incidentally reports a gross margin of approximately 80.2%, almost double the metrics put up by its competitors in the consumer industry.
  - Where does the huge difference come from? Has anyone ever purchased a brand they can specifically associate with Herbalife?
  - The company seems to have extremely low costs associated with its business model, and the flow of revenue, around \$4.25 Billion may stem from consulting fees, distribution sales, and other forms of payment resulting from the continuous hiring of new distributors.
- Herbalife's compensation scheme is highly unbalanced and leads to questions regarding its pay model.
  - Direct Selling Association suggests that the median salary of Herbalife salespeople is approximately \$24,000 each year. When taken into consideration, roughly more than 85% of the company's sales employees failed to earn commission at all in 2012. Disturbingly, around 1% of sales employees, assuming they are high-level employees, earned annual salaries well extending into six-digits.
  - The top 0.7% of the company took over 88% of the profits in sales, signaling huge discrepancies in the corporate structure and possibly serves as evidence of a pyramid scheme in that older, longer serving member of the business who are likely to be in the upper-levels end up making significantly more in pay than those

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below, many of whom may have been recruited by them.

### ➤ **Herbalife is conducting shady recruitment operations and appears to be breaking direct-selling laws in China, which represents its largest foreign investment and fastest growing market.**

- As in the US, Herbalife's operations in China resembles a possible pyramid scheme, and due to the orient's strict direct-selling laws, Herbalife has a higher risk of violating such regulations
  - The company is paying commissions to sales employees in excess of 30% of actual sales, which is in violation of Chinese sales law.
  - The company apparently also has consulting fees that they charge to local distributors, and further offers incentives for such distributors to hire even more salespeople so that there is a consistent flow of income from such consulting fees.
- Herbalife has 3 types of salespeople levels in China, Preferred Customer, Business Representative, and Distributor. Promotion to each upper level requires rules resembling a pyramid
  - For a preferred customer, one must buy a basic Herbalife Business Representative Data Set, worth approximately \$15 and show legitimacy through various paperwork
  - However, to be promoted to Business Representative, a Preferred Customer must order company products worth approximately \$196 for the purpose of selling on the behalf of the company, and must accumulate participants and customers to purchase such products, essentially creating a "downline."
  - From a Business Representative to an official Distributor, one must purchase around \$10000 in 3 months to sell and recruit additional customers and individuals into the business, who themselves may then work up the ladder and possibly become distributors
  - As such, this operating scheme is based on commission fee and bonuses for recruiting others
- Chinese laws specifically regulate against certain actions that Herbalife have taken
  - Direct Sales regulations state that a company cannot "have fee-paying or commodities purchase serve as conditions for becoming a sales promoter."
  - In addition, any given company may be in danger of become a pyramid scheme if its recruits are asked "to pay a certain fee for obtaining the qualifications for participation."

### ➤ **Federal investigations, current class action lawsuit, and the possibility of future probes and legal action are conjoining to cause fundamental harm to the company and its reputation**

- Investors of Herbalife are turning against the company in the wake of the corporate attention, and have filed a shareholder class action lawsuit against Herbalife, also claiming it is a pyramid scheme.
  - Investors are generally feeling misperceived by the company and believe that Herbalife has "engaged in deceptive trade practices."
  - They claim Herbalife made misleading statements about their perceived business model, and that the company did not fully disclose what accusers are calling a pyramid scheme.
  - The lawsuit represents all investors who have purchased stocks between the time period May 4, 2010 to April 11, 2014. Specifically, the case has been filed in the U.S. District Court in the Central District of California, and is being represented by Glancy Binkow & Goldberg LLP.
  - Recently, a second lawsuit has been filed by Pomerantz LLP, thus adding to the company's woes and diminishing their corporate image.
- In January, the Federal Trade Commission officially opened a probe into Herbalife due to its perceived misaligned business practices
  - In reaction, HLF stocks dropped 16.4%, but slightly recovered back to \$60.41 at the close of the trading day.
  - Although the Federal Trade Commission seeks to compensate those affected by business schemes, it does not officially conduct criminal prosecution.
  - This inquiry has sent shockwaves through the business world, and if federal authorities are able to reach a conclusion that determines Herbalife is in fact running a pyramid scheme, it could spell bad news for the nutrition and weight loss company.
- In early April 2014, several reports began to surface that the Federal Bureau of Investigation was opening an investigation into Herbalife
  - Evidently, federal authorities are reviewing documents given by former distributors and have demanded additional documents from the company itself for internal investigation. While both the FBI and Herbalife have declined to comment, neither confirming or affirming the matter, it is widely believed that this investigation has been ongoing. As soon as reports of the federal investigation surfaced, HLF stocks dropped 14% to \$51.48 within the first couple of days.
  - Although the investigation is still in its initial phases, and there have been no formal charges filed against

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Herbalife, Manhattan U.S. Attorney Preet Bharara is apparently involved, and the focus seems to be concentrated on marketing businesses and distribution network operations of the company.

- This criminal investigation suggests serious evidence is accumulating against Herbalife, and coupled with rapidly decreasing public sentiment and investor trust, the company is surely on a downward spiral from here on out.

### **Misperception**

- Herbalife is a growth company with upwards potential
  - Its sales are not nearly as consistent as expected of a global company that promotes itself to be an international distributor.
    - Herbalife cannot justify high product prices- its multivitamins are 3 times as expensive as those of close competitors. Through its extensive advertisements, Herbalife creates an almost exclusive vibe for its products, and gain in brand awareness and recognition. Thus, consumers just beginning to purchase such weight-losing products believe that it is invariably better than the health-promoting products of close competitors, which sometimes may not actually have significant variance in quality.
    - The company spends disproportionate amount of money solely on advertising its brand. They try to promote the corporate brand name and awareness, but hardly spend time advertising on behalf of its actual products. This is a serious issue and could indeed signify the company's desire to keep attracting and hiring future salespeople into their business, and profiting from the sheer recruitment process. Consequently, actual selling of products is not nearly as vast as it should be in a full multi-level marketing corporation. Thus, in Herbalife's business model, product sales are neglected.
  - For Herbalife, the company sells massive units of products to distributors themselves, and give the perspective that they are generating income by contributing to the global macroeconomy.
    - The company's distributor allowances account for over 50% of its total payout.
    - In fact, for every 100% of a suggest retail price for a Herbalife product, around 25% are made from retail profit, while recruiting rewards account for 48%, or almost twice the retail profit percentage.
    - The most prevalent sign of a pyramid scheme is when the company actually sells more products to its own sales employees than to external customers and consumers. A common method in a pyramid scheme is to sell "training material, classes, or products to salespeople under the impression they will lead to impressive returns on investment." On the other hand, if merely selling products does not suffice in terms of generating income for salespeople, they may continuously seek to actively recruit new sales employees below them, who will also buy training materials and other products from the recruiters who attracted them, thus generating income for the recruiters in a circular fashion. In addition, the recruiters may receive some kind of bonus. When recruitment decreases, then a pyramid scheme become evident.
  - Herbalife products are primarily designed and marketed in a way to target populations with lower-income. Such consumers may not be as knowledgeable about the most important components of health, daily exercise and fresh produce.
    - The lower-income, less-educated customers may be easier to induce into purchasing such supplements as alternatives or even replacements of organic fruits and vegetables.
    - The products' demand is evident that US consumers now have a different approach to seeing food as a source for fuel. The nutrition foods that Herbalife promotes are supposed to improve the expected well-being of those who buy them.
    - However, people begin to grow dependent on artificial weight-loss protein shakes rather than actually engage in natural ways to prevent diseases and promoting organic health.
    - Educated consumers are starting to realize that eating supplements provided by companies such as Herbalife are not as beneficial as consumption of natural fruits and vegetables.
    - Thus, the industry is not a stable, long-run, industry capable of continuously generating income. Eventually, sales will dry up, and companies like Herbalife will cease operations.
- Herbalife is a full multi-level marketing corporation that seeks to make revenue through product sales to customers
  - A marketing company can be considered multi-leveled if its employee compensation is based from sales, thus proving that there is actual demand for the products sold.
    - The most apparent aspect of a multi-level marketing company is the fact that employees that sell the products do so directly to the individual customers themselves, and thus engage in direct selling.
    - However, the structure closely resembles a binary tree, where upper level corporate individuals will profit whenever employees below sell products.
    - Such distributors often work through networks of customers that purchase the products firsthand from the

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- company through its active salespeople, but the distributors sometimes sell through retail, as well.
- The United States Federal Trade Commission advises companies to “steer clear of multi-level marketing plans that pay commissions for recruiting new distributors.” This is a major point of contention for Herbalife and its primary opposition. Not only does the company seem to continuously keep hiring new salespeople throughout its vast network, upper-levels of the corporation are making profits from these activities.
  - Upon closer analysis, Herbalife more closely resembles a pyramid scheme than a true multi-level marketing corporation.
  - Herbalife employees receive compensation when they recruit new salespeople
    - In multi-level marketing companies, sales employees also receive a large portion of their salary from the number of new salespeople that they personally recruit into the company, and are not just compensated simply by the units of products they directly sell to consumers. Due to this structure, employees of the company that have served longer gain a significant advantage in that they will receive greater compensation from pure recruitment.
    - The longer they have worked, the more salespeople they will bring to work below them, and when such “newbie” purchase products to sell, the recruiters themselves earn money. However, this may mislead potential sales employees who think of a generous compensation, because the higher number of levels above a recruit, the lower his or her compensation will be; that is, how low the tier an employee belongs in will impact compensation.
  - Herbalife’s compensation scheme is highly unbalanced and leads to questions regarding its pay model.
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    - The top 0.7% of the company took over 88% of the profits in sales, signaling huge discrepancies in the corporate structure and possibly serves as evidence of a pyramid scheme in that older, longer serving member of the business who are likely to be in the upper-levels end up making significantly more in pay than those below, many of whom may have been recruited by them.

### **Value-Added Research (VAR)**

- Pershing Square Capital Management, LLP analysis of Herbalife
  - Bill Ackman claims Herbalife is running a pyramid scheme and that its business operations suggest it is not a full multi-level marketing corporation.
    - It accumulates income through continuous recruitment of distributors, more than the actual selling of commodities
    - Herbalife claims to be a “product innovator,” but it really only has an annual Research & Development budget of around \$4 million, and “has only one U.S. patent in the healthcare/nutrition area.” For comparison, Kellogg’s holds 228, Mead Johnson Nutrition has 49, NBTY and GNC both hold 21 patents in this regard, all exponentially than the product “innovator” Herbalife.
    - Overall, Ackman states that Herbalife is not a product company, and that “it’s about the business opportunity, not the products,” the latter of which should be the focus for true multi-level marketing corporations.
    - “Herbalife products are commodities, are offered at a massively inflated prices, its R&D expenditures are not material, and it pays PhD’s to lend credibility to HFL’s business opportunity.” – Ackman, Pershing Square Capital Management.
  - A closer inspection of sales and operating activities reveal more questions than answers about its supposedly legitimate business model.
    - Herbalife sells around more nutritional powder (protein powder, booster formulas, calcium supplements than its competitors.
      - GNC, Unilever, and Abbott Laboratories each sell approximately \$200, \$80, and \$25 million from its nutritional powders, respectively.
      - Herbalife, however, apparently sold close to \$1,800 million in its Formula 1 powder, which is an astonishing 15% times the sales of its competitors.
    - Herbalife products are not sold in stores, and do not have as much brand value
  - Pershing Square also points out that Herbalife “promotes and advertises its corporate name and logo, but not its products.”
    - While Herbalife claims that “the whole world knows about us,” typical consumers do not even know specific products that the company sells, since the company does not retail through stores.
    - The company has spent around \$2 Billion promoting its brand, through various tactics including the use of

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superstar soccer players such as David Beckham and Lionel Messi, Herbalife signs inside sports stadiums, jumbotron projections, and on Formula 1 racing cars.

- Even then, the company may be recognizable, but its products are still shrouded in mystery to the average American consumer.
- Jóhannsson M, Ormarsdóttir S, Olafsson S- Icelandic researchers conclude Herbalife products may be harmful to consumers. "Hepatotoxicity is probably associated with the use of Herbalife products. Hepatotoxicity due to herbal remedies is an important differential diagnosis in the diagnostic work-up of liver injury."
- Survey for healthy food and nutritional consumers- see Exhibit 8
  - I personally conducted a survey that consists of the following questions, to 20 students who are particular regarding eating healthily and are meticulous about their nutrition and weight. The results support both the thesis and Ackman's claim that Herbalife products are relatively unknown to most consumers.
    1. Have you ever heard of the global, multi-national distributor of nutritional and weight-loss company, Herbalife LLP?
    2. Do you know any specific brands or consumer products associated or is produced by Herbalife, LLP?
    3. Have you ever personally purchased a weight loss or nutritional product manufactured under the company Herbalife, LLP?
- U.S. judge Beverly Reid O'Connell dismissed Herbalife's defenses, from Law 360 News Report
  - "The considerable discounts and advantages offered to supervisors presents the same risk of a recruitment focus"
  - "[D]ismissal based on Herbalife's alleged anti-pyramiding safeguards is inappropriate at this stage in the litigation,"
  - Investors "have adequately supported their allegations against Herbalife."
  - Judge O'Connell stated that Herbalife's "endless chain scheme claim meets both of the requirements of the so-called Koscot test, which is used to determine whether a company's business model is consistent with that of a pyramid scheme."

### **How It Plays Out**

- If the Federal Bureau of Investigation files one or more formal charges against the company, Herbalife would be in even more trouble, and upon release of such a disturbing news, its stock is likely to drop another 15%.
- Keep up with the class-action lawsuit filed against Herbalife, and if investor sentiment and trust should continue to decrease with each passing news regarding the pyramid scheme.
- Look for China to undergo its own investigation into Herbalife. Such a probe would add to the company's recent collection of woes and would also further harm its reputation. China is its fastest growing service market, and this development may just push Herbalife out.
- Herbalife will continue to vehemently deny claims of a pyramid scheme, but evidence against them may accumulate, and high profile businessmen offer analysis of the situation.

### **Risks / What Signs Would Indicate We Are Wrong?**

- If the FBI or FTC rules in favor of Herbalife and/or clears Herbalife of any wrongdoing in its alleged pyramid scheme business model, the investors would be wrong and the stock would rise immediately
- Herbalife's gross margins should not change significantly the next few quarters, as this may signify that the company is undergoing changes to correct its business model.
- Herbalife's stock has risen considerably the past 4 quarters, but if for reasons above, the stock goes even higher, this may signal a change in trend.
- Herbalife should not gain much positive recognition from investors or consumers in the coming quarters. If this occurs, which is highly unlikely, the company may be gaining support and say that its distributors are not being continuously hired.

### **Signposts / Follow-Up**

- It would vital to monitor the Federal Bureau of Investigation's inquiry and the Federal Trade Commission's probe into Herbalife, LLP, and see what new developments occur as a result of possible conclusions by the federal authorities.
- Look for new researches and studies about Herbalife's products, and in general, the effects of weight-loss products and nutritional powders.
- There may even be additional high-profile investors and/or hedge fund managers such as Bill Ackman who might make statements or investigate Herbalife themselves. If such high-profile figures criticize the company or even take short positions, Herbalife's stock will drop further.
- Finally, keep up with Bill Ackman and Pershing Square, as the hedge fund manager may continue to analyze Herbalife's operations and come up new ways to diminish its corporate stature.

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Page of Exhibit(s)

Exhibit 1- Pyramid Scheme operating process

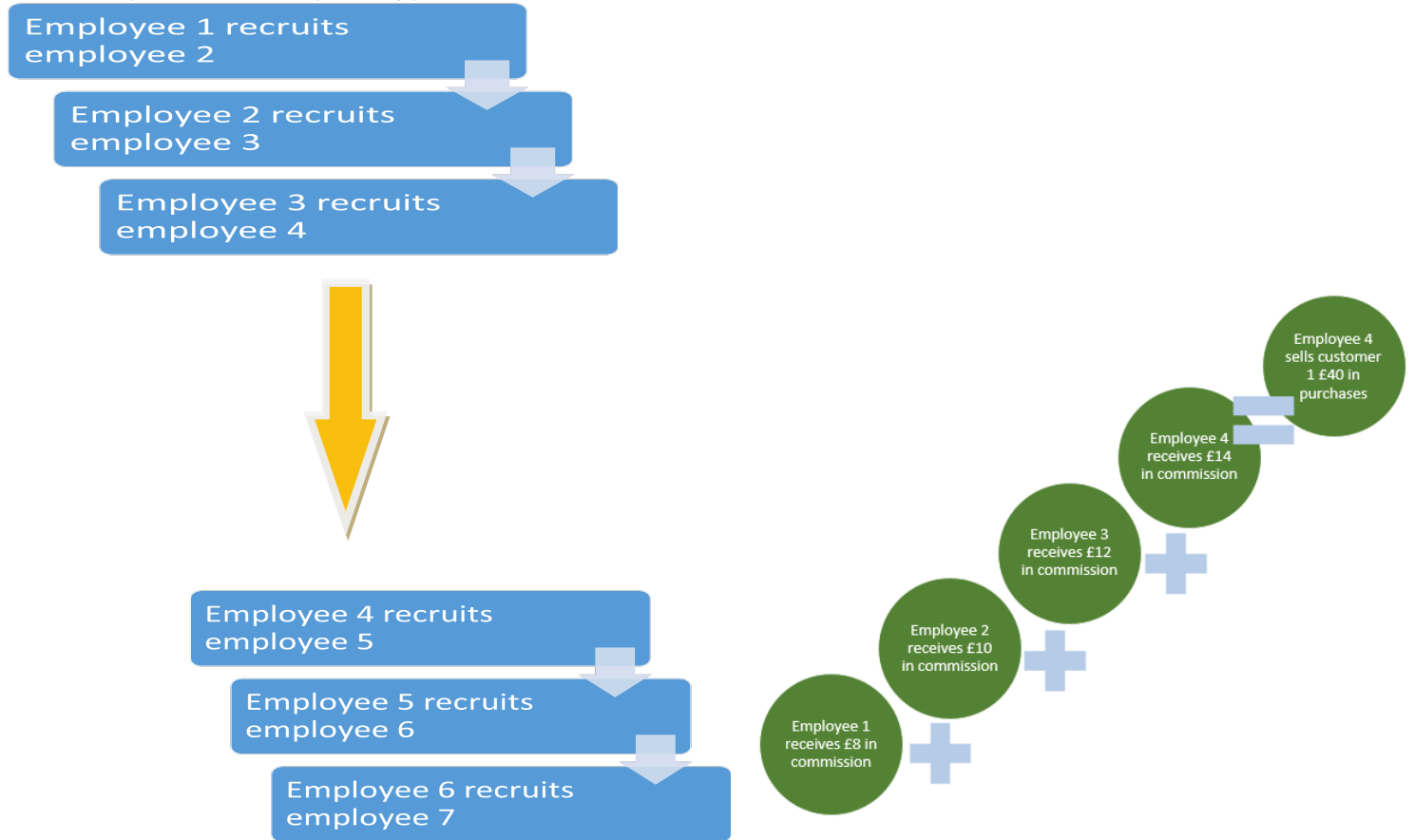
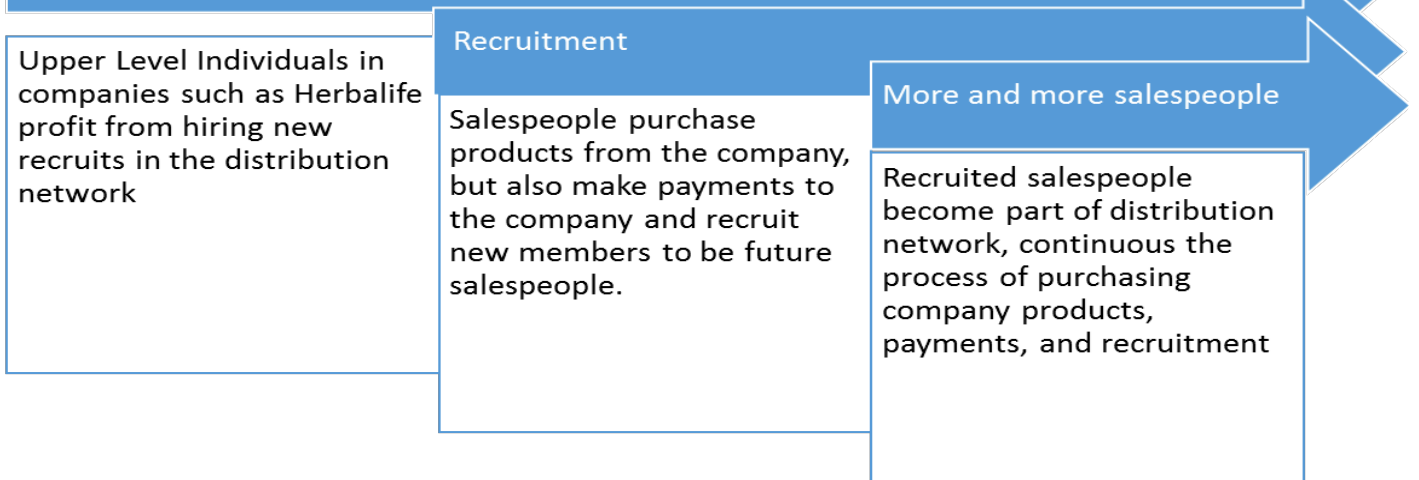


Exhibit 2; Pyramid Scheme Operation. \$\$\$ from lower levels flow to upper levels



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Exhibit 3- Graph of disproportionate earnings in pyramid scheme

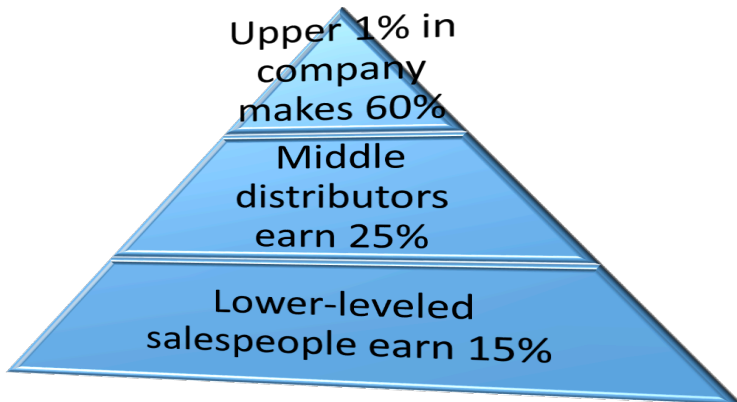
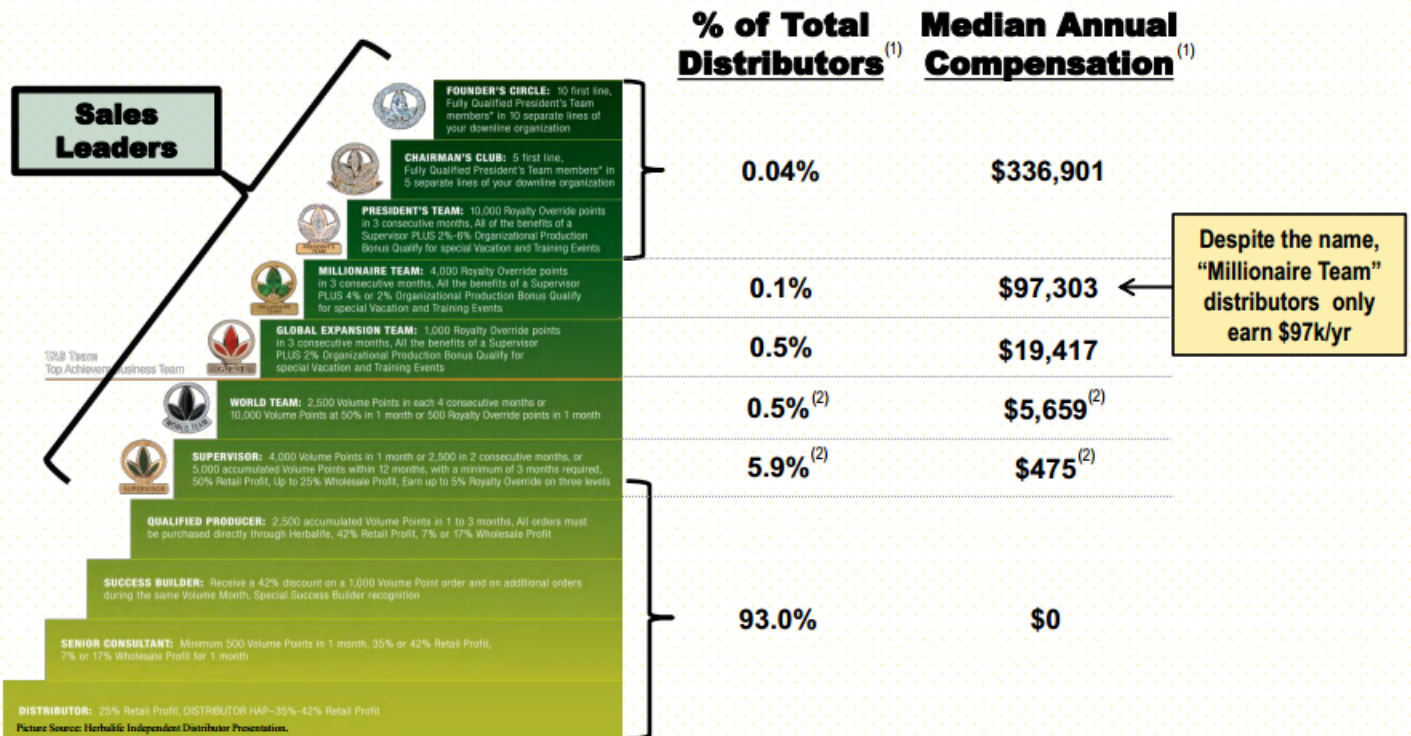


Exhibit 4- Value-Added Research (1)



\*Pershing Square Capital Management

The above schematic shows how a pay structure in a pyramids scheme works. Older, who are usually more upper-levelled employees who have remained with the company for a longer time hires out distributors, who themselves hire out salespeople below in a circular, continuous chain of distribution networking.



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Exhibit 5- Sales growth table from 10-K

Herbalife's Primary Reporting Segments						
For the Fiscal Year Ended December 31,	2008	2009	2010	2011	2012	2013
<b>Net Sales:</b>						
Primary Reporting Segment						
United States	477.6	512.9	595.4	676.9	816.9	881.0
Mexico	352.2	263.0	334.0	436.9	496.1	562.4
South Korea	-	115.0	208.9	343.5	421.4	433.7
Others	1,384.4	1,281.4	1,411.5	1,786.4	2,059.4	2,476.6
<b>Total Primary Reporting Segments</b>	<b>2,214.2</b>	<b>2,172.3</b>	<b>2,549.8</b>	<b>3,243.7</b>	<b>3,793.8</b>	<b>4,353.7</b>
<b>China</b>	<b>145.0</b>	<b>152.3</b>	<b>184.4</b>	<b>210.8</b>	<b>278.5</b>	<b>471.6</b>
<b>Total Net Sales</b>	<b>2,359.2</b>	<b>2,324.6</b>	<b>2,734.2</b>	<b>3,454.5</b>	<b>4,072.3</b>	<b>4,825.3</b>
<i>Total Net Sales Growth</i>		-1.5%	17.6%	26.3%	17.9%	18.5%
<i>China Net Sales Growth</i>		5.0%	21.1%	14.3%	32.1%	69.3%
<i>China Net Sales as a % of Total Net Sales</i>	6.1%	6.6%	6.7%	6.1%	6.8%	9.8%
<i>China's Share of Total Net Sales Growth</i>		NM	7.8%	3.7%	11.0%	25.6%

\*Herbalife 10-K

Exhibit 6

Volume Points Required	RMB Equivalent (Chinese Currency)	USD Equivalent	Retroactive Credit
100	1,200¥	\$197	15%
500	6,000¥	\$985	20%
2,000	24,000¥	\$3,940	25%

\*Herbalife's distribution network in China allows salespeople to climb levels by accumulating "volume points." Volume points are gained by purchasing Herbalife products or by recruiting other individuals to work as salespeople.

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Exhibit 7 – Herbalife’s income projections versus actual sales income

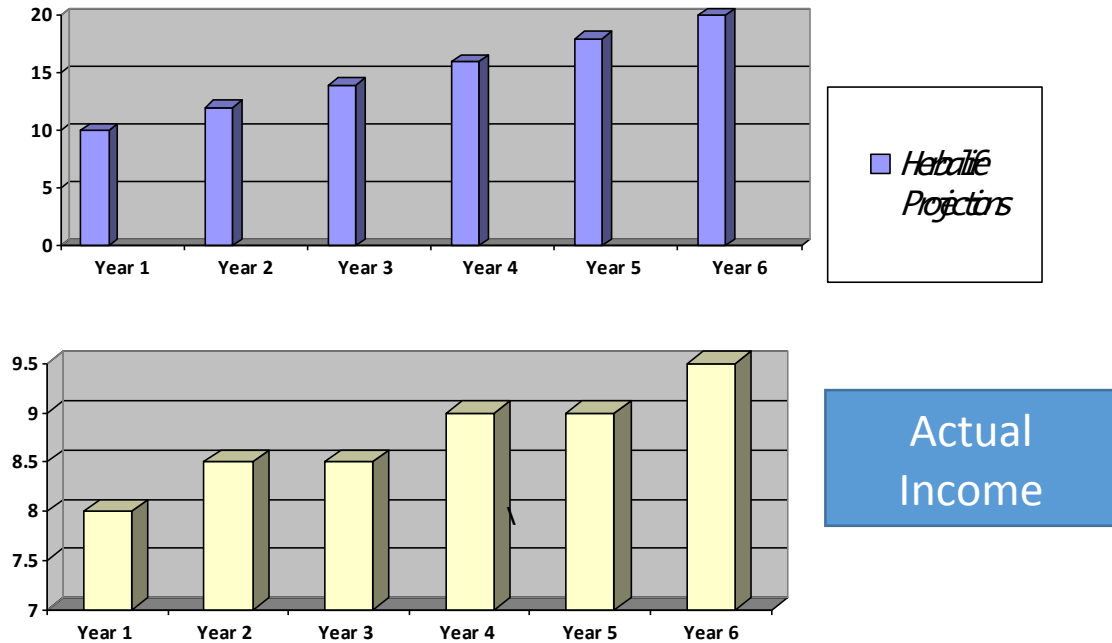


Exhibit 8- Value-Added Research (3)

Question Asked/ Response (20 participants)	Yes	No
Have you ever heard of the global, multinational distributor of nutritional and weight-loss company, Herbalife LLP?	8	12
Do you know any specific brands or consumer products associated or is produced by Herbalife, LLP?	3	17
Have you ever personally purchased a weight loss or nutritional product manufactured under the company Herbalife, LLP?	0	20

\*If Herbalife was indeed such a “global, multinational corporation known to everyone,” as the company has claimed, then why do they not have as much brand awareness? More importantly, if Herbalife was a true multi-level marketing corporation, where has their “marketing” gone to? Obviously, the company’s focus is not so much on products as they have claimed.

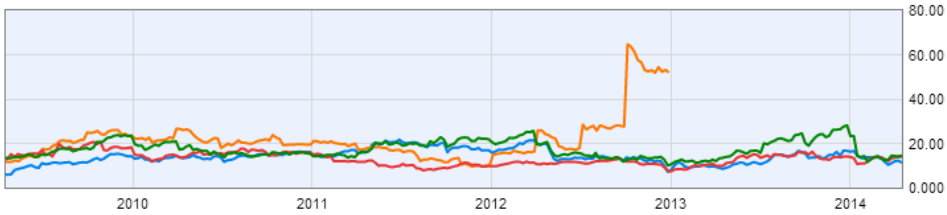
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## Exhibit 9- Multiples Valuation and Industry Comparison

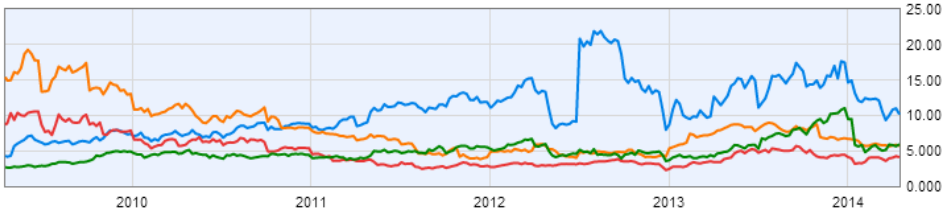
### Price to sales



### Price to earnings

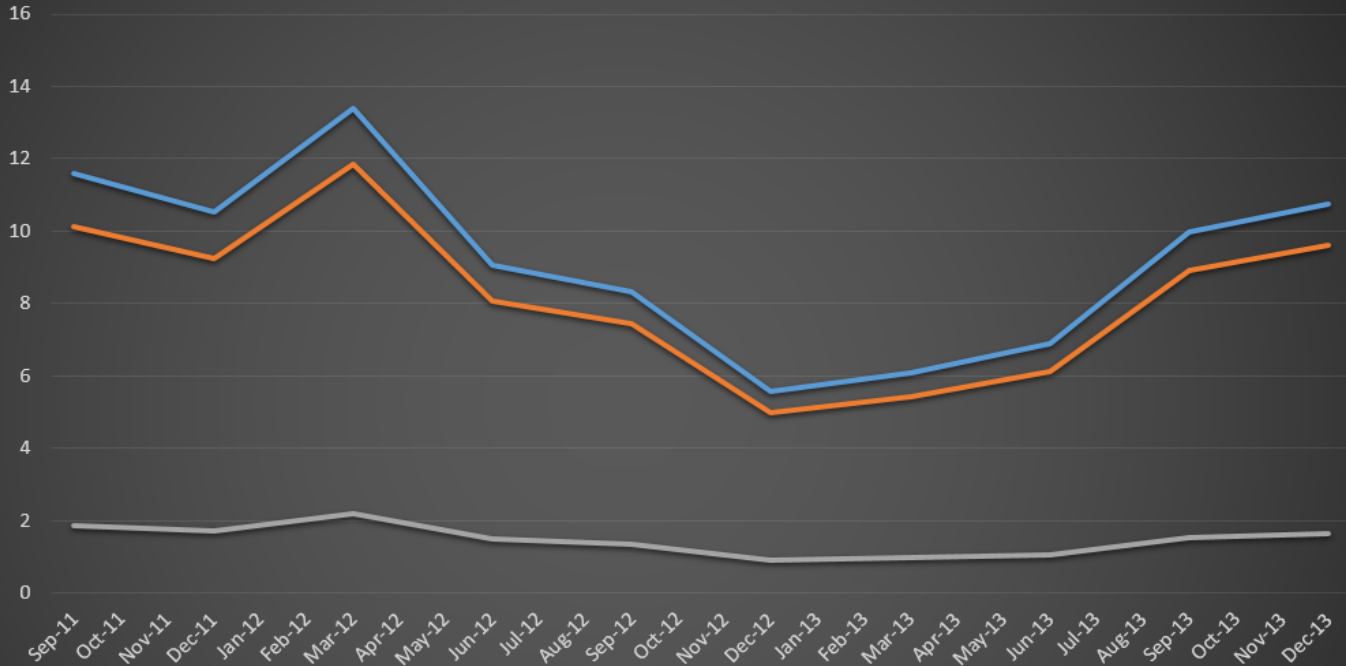


### Price to Book



\*The blue trend represents Herbalife; the other three are the trends of its close competitors; Nu Skin Enterprises, McKesson Corporation, and Cardinal Health.

## Enterprise Value Quarterly Trend



	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
EV/EBIT	11.58	10.54	13.41	9.05	8.32	5.56	6.08	6.88	9.99	10.76
EV/EBITDA	10.11	9.25	11.84	8.07	7.43	4.97	5.43	6.13	8.91	9.6
EV/REVENUE	1.87	1.72	2.19	1.5	1.36	0.9	0.97	1.06	1.54	1.64

— EV/EBIT — EV/EBITDA — EV/REVENUE