



FAQ DOCUMENT

Q: I heard about a settlement with the FTC. What can you tell me?

A: Yes, a settlement agreement has been reached between the FTC and Herbalife, and the FTC's investigation is now complete. The agreement did not change our business model as a direct selling company. Instead it requires some new procedures and builds upon many of the policies and protections we already have in place that we simply need to adjust or strengthen. We expect that these new and enhanced procedures will become the industry standards.

As a result of the settlement, we'll have two categories of Herbalife members in the United States: "preferred members" (who are discount purchasers) and "distributors" (who are interested in the Herbalife business opportunity and growing a retail business). Distributors will be compensated based on their valid U.S. retail sales accompanied by a receipt.

We've been working with our top distributors on tools and trainings that will enable us to smoothly transition. In the meantime, please continue building your business, and please be on the lookout for further communications.

Q: Why did Herbalife reach a settlement?

A: Herbalife agreed to the settlement terms because the Company has confidence in its ability to carry out its obligations under the agreement; the financial cost and distraction of protracted litigation would have been significant; and because after more than two years of cooperating with the FTC's investigation, the Company realized it is time to move forward.

Q: What is the process to obtain compensation from the \$200 million settlement that Herbalife paid to the FTC?

A: The FTC will determine eligibility, the terms under which a person will be compensated and the amount of compensation for each individual. Herbalife is not part of this determination.

Q: How does this impact me? What should I do now?

A: As mentioned above, we will now have two distinct membership categories in the United States: "preferred members" and "distributors." Preferred members are customers who purchase products at a discount for personal consumption only. Preferred members are not allowed to pursue the Herbalife business opportunity. Distributors, on the other hand, can purchase products at a discount for personal consumption or to sell at retail. All current and newly joining U.S. members will be asked to select the membership category that best fits their goals.

Over the next month(s), we will have meetings, trainings, new communication materials and technology to explain the updates that will be implemented for U.S. members to make these requirements simpler and easier to accomplish. Additional information will be shared at meetings over the next 60 days. Please be on the lookout for further communications and regularly visit Herbalife.com to stay in touch with the latest updates.

As of right now, you should carry on with your business as usual, in accordance with our current rules.

For more information, visit Herbalife.com/StrongerThanEver



Q: When will the agreement relating to retail receipt procedures take effect? By what date do you expect all of the changes to be implemented?

A: Under the terms of the agreement the retail receipt procedures will be implemented within 10 months from July 25, 2016.

Q: Why do people join Herbalife?

A: Most people join for the product discount.

- According to a survey conducted by an independent outside firm, 73% join primarily to purchase the product at a discount and 56% join exclusively for the product discount.¹
- The Company's own data also shows member purchasing patterns and reveals that most members are purchasing for consumption:
 - 75% of members buy amounts consistent with personal consumption and 84% of members don't purchase anything related to building an Herbalife business.²
- Independent third party research has also found that the vast majority of members who pursue the Herbalife business opportunity do so on a part time basis.
 - 75% of current members and 85% of former members work less than 10 hours a week³ and only 4% of members work full time, respectively, and in each case pursuing the Herbalife business opportunity.⁴
- As reflected in the Company's own data, those who do pursue the Herbalife business opportunity are almost always able to profitably resell Herbalife products. An analysis of Herbalife's internet sales platform shows that more than 99% of sales are profitable and the average sale price is typically 93% of suggested retail price, with members passing along shipping and tax costs to their customers.⁵
- Moreover, the reasons Herbalife members join mirrors those of direct sellers in general. According to a Direct Selling Association (DSA) survey, 57% of participants began direct selling because they wanted to purchase products at a discount,⁶ 54% became direct sellers for a flexible work schedule,⁷ and 86% worked less than full time.⁸

Q: In the FTC's complaint, it says that your marketing materials contain misleading income claims. Is this true and how are you fixing it?

A: Herbalife clearly, consistently and prominently advises prospective and current members (who in the United States will be preferred members and distributors in the future) about typical earnings through our Statement of Average Gross Compensation. In addition to our current guidelines for claims, under the terms of the settlement, we will extend the protections on income claims, provide additional trainings and include greater specificity around lavish lifestyle claims.

Herbalife also has a robust compliance function dedicated to monitoring and enforcing Herbalife's Rules of Conduct, so that in the event the Company discovers that an individual distributor or preferred member does not comply with our guidelines or a violation is brought to the Company's attention, it can be quickly addressed.

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Q: What kind of experience do Herbalife members have?

A: Numerous studies and surveys have shown high levels of satisfaction amongst current and former Members, which is also evidenced by low complaint and return rates.

- According to a recent independent third party survey, 96% of current members and 84% of former members rated their Herbalife experience a 3 or better out of 5.⁹
- The same survey showed 87% of current and 61% of former selling members rated it a 4 out of 5, or better.¹⁰

Q: How does Herbalife's retention rate compare to others? How much of Herbalife sales come from retained members?

A: Herbalife's retention rates are better than the industry average and are better than the retention rates in numerous other industries.

- Based on a 2015 report, the DSA average turnover rate was 53%.¹¹
- Using the same methodology as the 2015 DSA report, based on the Company's data, Herbalife's turnover rate was approximately 44%.¹²
- By comparison, the turnover for another weight loss company, Jenny Craig, was 93% as reported in a 2007 independent third party study¹³ and, according to published Bureau of Labor statistics from 2015, the turnover rate for employees in other industries is much higher: food services 72%, retail 56%, and construction 56%.¹⁴
- In any event, continuing members, not those who leave the business, drive the Herbalife business. Based on the Company's own data, 88% of volume comes from continuing members, with only 12% of the volume from coming members whose last order was within one year of joining.¹⁵

Q: Is there demand for Herbalife products?

A: Yes, absolutely.

- Herbalife is the market leader in the United States meal replacement slimming category, representing an 18.1% market share, based on a 2015 report from Euromonitor¹⁶
- Based on the Company's analysis of competitive products, our Formula 1 shake product is competitively priced in the marketplace on a per serving basis.¹⁷
- According to two separate independent third party surveys, approximately 7 million customers¹⁸ and 5 million households¹⁹ used Herbalife products, each within two separate 90 day periods.

Q: How much of your products go towards end-user consumption? What are the types of end-users for Herbalife products?

A: According to a study done by economist, Dr. Walter Vandeale,²⁰ 97% of the volume of products purchased from Herbalife is bought for end use consumption:

- 39% is sold to out-of-network customers.
- 24% is purchased by members who joined exclusively for the product discount – these will clearly be defined as preferred members in the future.
- 17% is purchased from members that joined primarily for the discount that might have a secondary interest in the business. Some of these members will be distributors in the future, some will be preferred members.
- 17% is purchased by business participants for their own household consumption.

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Q: How much product is returned by members?

A: Approximately 0.1% by volume of our product was returned in 2015, despite repeated reminders of our industry leading full refund policy.²¹

Q: What is changing about Nutrition Clubs?

A: Existing Nutrition Clubs can continue operating with no significant changes. For distributors who will sign a new lease, purchase a new business location to operate a Nutrition Club or are otherwise planning to open a Nutrition Club, Herbalife will now require a business plan, a training course that will cover how to create a budget and learn about and comply with local laws, and a one-year waiting period before opening a Nutrition Club.

However, because approximately 77% of Nutrition Clubs that opened since January 2015, were opened by members that have been in the business longer than 12 months, we do not anticipate that these changes will have a major impact.²²

Moreover, according to independent third party survey data, 81% of Nutrition Clubs make money or break even.²³ In addition, another survey by the same independent third party shows that 87% of Nutrition Club attendees were “very satisfied” with their club experience and stated they would continue visiting their clubs.²⁴

[Please note: There will be no changes to existing Nutrition Clubs.]

Q: What does this mean for the rest of the direct selling industry?

A: We believe the procedures agreed upon in the settlement will now provide clear direction for the entire direct selling industry. Therefore, while some of the additional terms of the settlement agreement might not have significant applicability to Herbalife, these provisions will improve policies throughout the industry. We believe the FTC will eventually want all MLM companies to adhere to the same regulations that we will be following.

For more information, visit Herbalife.com/StrongerThanEver



Endnotes:

- ¹ *Current Use of and Interest in Purchasing Herbalife Products*, Lieberman Research Worldwide, July 2012, Pg. 4
- ² Herbalife data
- ³ *RSI Current and Former Member Research*, February 2016
- ⁴ *Current Use of and Interest in Purchasing Herbalife Products*, Lieberman Research Worldwide, July 2012, Pg. 4
- ⁵ GoHerbalife data
- ⁶ *2014 National Sales force Study*, Direct Selling Association, April 2014, Pg.6, 67
- ⁷ *Id.*
- ⁸ *Id.* at 20.
- ⁹ *RSI Current and Former Member Research*, February 2016
- ¹⁰ *Id.*
- ¹¹ *2015 Growth & Outlook Report*, Direct Selling Association
- ¹² Herbalife data
- ¹³ C. E. Finley, et al., *Retention Rates and Weight Loss in a Commercial Weight Loss Program*, 31 International Journal of Obesity 294–98 (2007), available at <http://www.nature.com/ijo/journal/v31/n2/full/0803395a.html#bib11>
- ¹⁴ <http://www.bls.gov/news.release/jolts.t16.htm>
- ¹⁵ Herbalife data
- ¹⁶ EuroMonitor 2015
- ¹⁷ Herbalife data
- ¹⁸ *What Percentage of the Population is an Herbalife Customer*, The Nielsen Company, June 2013, Pg. 7
- ¹⁹ *Current Use of and Interest in Purchasing Herbalife Products*, Lieberman Research Worldwide, July 2012, Pg. 4
- ²⁰ *Report of Dr. Vandaele, April 9, 2014*
- ²¹ Herbalife Ltd., Annual Report (Form 10-K) 12 (Feb. 25, 2016)
- ²² Herbalife Nutrition Club Registration Data
- ²³ *Understanding the experience of current nutrition club owners*, Lieberman Research Worldwide, March 2013, page 5
- ²⁴ *Nutrition Club Full Market Findings*, Lieberman Research Worldwide, September 2014, Pg. 5-6

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