Pershing Square Capital Management, L.P.

Q2 Conference Call

July 20, 2016

HERBALIFE

No Longer "Business" as Usual

An Overview of the FTC's Complaint and Injunctive Relief

July 20, 2016

PERSHING SQUARE

Pershing Square Capital Management, L.P.

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Agenda

- **Introduction**
  - Pershing Square's Thesis on Herbalife
- **Overview of the FTC Complaint**
- **Injunctive Relief**
- **The HLF Spin Machine**
- **Conclusion**

Pershing Square on Herbalife

- **December 2012 – Who Wants to be a Millionaire?**
- **March 2013 – Herbalife and Fortune Hi-Tech: Side-by-Side**
- **March 2014 – Herbalife in China**
- **July 2014 – The Big Lie (Nutrition Club Presentation)**
- **January 2015 – Stealing the American Dream (LULAC Presentation)**
- **September 2015 – Herbalife and Vemma: Side-by-Side**
- **February 2016 – The American Dream Denied (Victim Video Series)**

What We Said Then…

- **"Herbalife distributors earn almost no retail profit" (1)**
- **"Herbalife's compensation plan incentivizes orders without regard to retail demand" (2)**
- **"The real purpose of Nutrition Clubs is recruitment" (3)**
- **"Participants in the Herbalife scheme, the distributors, 'obtain their monetary benefits primarily from recruitment rather than the sale of goods and services to consumers.'" (4)**
- **"Recruiting Rewards earned by distributors are substantially greater than the Retail Profit they generate" (5)**
- **Herbalife mischaracterizes distributors attempting to build a business as retail customers (6)**

(1) Pershing Square Capital Management. *Who Wants to be a Millionaire?* at p.147.
(2) Id. at p.174.
(3) Pershing Square Capital Management. *The Big Lie.* at p.69.
(4) Pershing Square Capital Management. *Who Wants to be a Millionaire?* at p.63.
(5) Id.
(6) Id at p.126.

Pershing Square's Thesis

- Pershing Square has long held that Herbalife is a fraud – a Pyramid Scheme that victimizes millions of people around the world

- Our investment thesis has been that the FTC would take one of two actions:
  - Litigate to halt Herbalife's operations and provide restitution for victims, or
  - Demand material injunctive relief – effectively dismantling the pyramidal nature of Herbalife's business – and otherwise prevent further victimization of consumers

- **We believe the FTC's recently announced Settlement Agreement represents the fulfillment of the second of the above two scenarios**

FTC Summary

- On July 15th, 2016 the FTC filed a Complaint for Permanent Injunction and Other Equitable Relief (the "Complaint")(1) against Herbalife.(2) Specifically, the FTC announced that Herbalife operates illegally and alleged violations of Section 5(a) of the FTC Act, including:
  - **Unfair Practices**: Engaging in "unfair acts or practices" which are "likely to cause substantial injury to consumers" (3)
  - **Income Misrepresentations**: Engaging in "deceptive acts or practices" including making false representations that Herbalife distributors are "likely to earn substantial income" (4)
  - **False or Unsubstantiated Claims of Income from Retail Sales**: Falsely representing that "Herbalife Distributors are likely to earn significant full-time or part-time income from selling Herbalife products at retail" (5)

- **The FTC findings confirm our long-held allegation that Herbalife operates as a pyramid scheme**

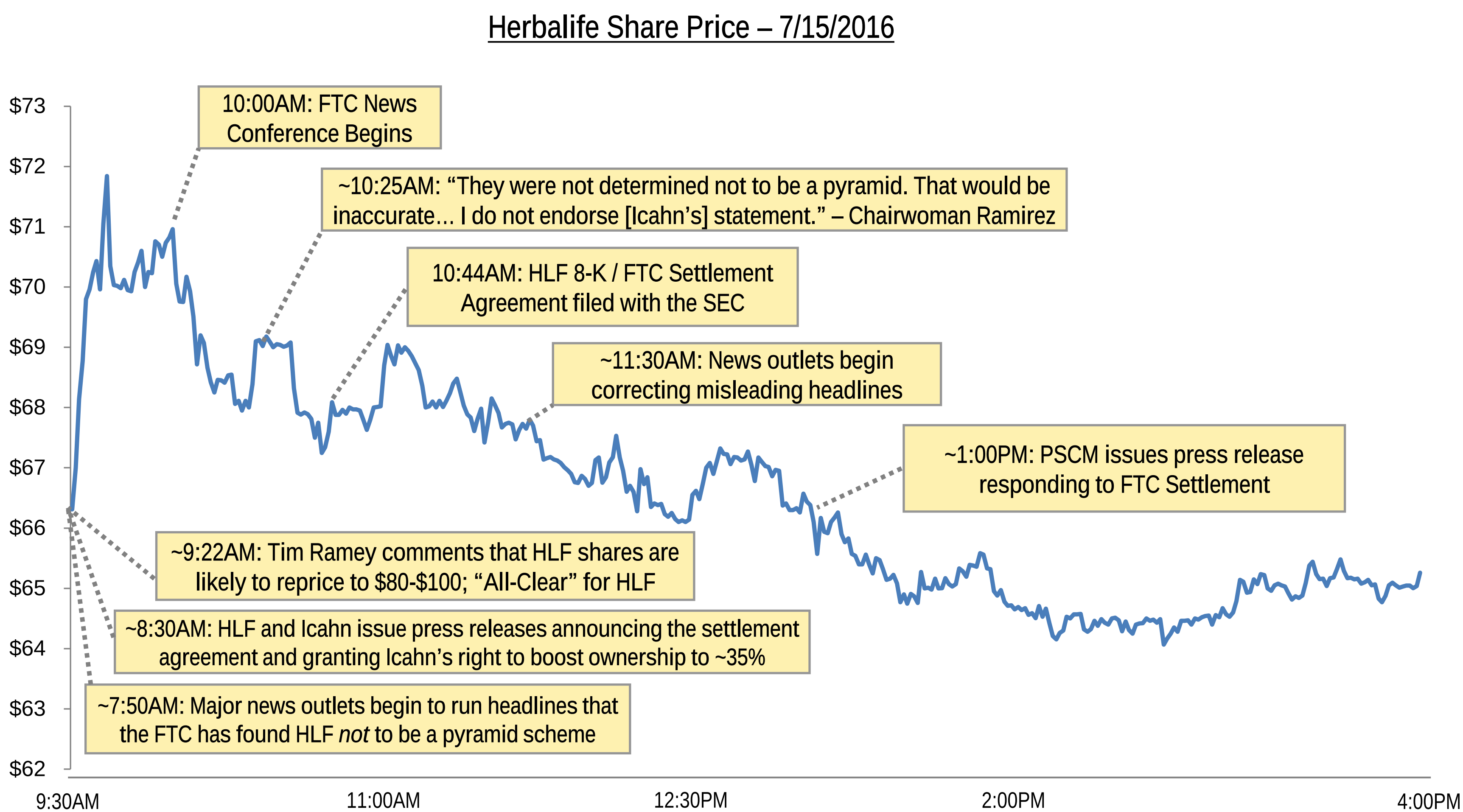
(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief.
(2) Including: Herbalife International of America, Inc., Herbalife International, Inc., and Herbalife LTD., collectively ("Herbalife").
(3) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.39.
(4) Id.
(5) Id., at p.40.

FTC Summary (cont'd)

- On July 15th, 2016 Herbalife filed an 8-K, which included a Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment (the "Settlement Agreement") (1)
- The Settlement represents Herbalife's agreement to engage in a "top to bottom"(2) restructuring of its business model in the United States. Key elements include:
  - Compensation limited to verifiable, "Profitable Retail Sales"(3)
  - Present compensation levels remain only if 80% or more of U.S. sales are verifiable, "Profitable Retail Sales"
  - Qualification purchases are prohibited
  - Misleading income claims prohibited
  - An Independent Compliance Auditor to oversee compensation plan changes for a period of seven years
- Prohibition on misleading income claims is immediate. Mandated changes to the compensation plan are effective beginning May 2017
- **We believe the implementation of the Settlement Agreement will cause the pyramid to collapse**

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Stipulation to Entry of Order for Permanent Injunction and Monetary Judgement.
(2) https://www.ftc.gov/news-events/blogs/business-blog/2016/07/its-no-longer-business-usual-herbalife-inside-look-200
(3) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Stipulation to Entry of Order for Permanent Injunction and Monetary Judgement at p.5.

Herbalife: July 15, 2016 Share Price Performance



Source: Bloomberg.

Herbalife's Spin Machine

Herbalife's Reaction to the Settlement

"The FTC settlement is an acknowledgment that our business model is sound and underscores our confidence in our ability to move forward successfully, otherwise we would not have agreed to these terms."

- Michael O. Johnson,
chairman & CEO, Herbalife

Stronger Than Ever

Michael O. Johnson

People might tell you that opportunity is limited. That you mus
That value is only measured through standards set by others.

At Herbalife Nutrition, we disagree.

At our core, Herbalife Nutrition is about empowerment. We reward discipline and hard work. We fuel transformation and foster reinvention.

With our recent settlement with the FTC, we and our 4 million preferred members and distributors are focused more than ever on helping people achieve their goals – whether by losing weight, living a healthy lifestyle or earning some extra money when and how they choose through our direct sales business model.

The terms of the settlement in no way change our business model as a direct selling company but simply build upon current procedures. Because of this, we are confident and excited about the future of our business.

Every day our members show what can be achieved when the
difference. It is their stories of reinvention that inspire me, and
8,000 dedicated employees, to work harder every day.

It is for them that we move forward, stronger than ever.

Michael O. Johnson is the chairman and chief executive officer of Herbalife.

"The FTC settlement is an acknowledgment that our business model is sound…"

"The terms of the settlement in no way change our business model as a direct selling company but simply build upon current procedures."

(1) http://www.herbalife.com/StrongerThanEver?cmp=M_US_EN_WBS_SummerPromotionHL_BTN_XXX_Stronger_20160715

Herbalife's Spin Machine

Icahn's Reaction to the Settlement

Carl Icahn Issues Statement In Response to Herbalife's Settlement with the FTC

July 15, 2016

Share:

I have always believed in Herbalife's strong fundamentals and am pleased the Board has decided to increase my ownership limit from 25% to 34.99% of the Company's outstanding shares. A significant part of my investment success is directly tied to our in-depth investment research and understanding of often complex and unique issues facing companies. One can be sure that this was the case with Herbalife where we spent considerable time and resources studying the false pyramid scheme accusations made against the Company. Unlike many of those that "shorted" Herbalife, we did not rely on one or two research papers prepared by non-experts. As a result of our research, over three years ago we concluded that Herbalife was not a pyramid scheme. The FTC settlement announced today, coming after a two-year investigation also concluded that Herbalife is not a pyramid scheme – a conclusion that obviously vindicates our research and conviction. While Bill Ackman and I are on friendly terms, we have agreed to disagree (vehemently) on this subject. Simply stated the shorts have been completely wrong on Herbalife. Now that the Company has reached a settlement with the FTC, it is time to consider a range of strategic opportunities, including potential roll-ups involving competitors, as well as other strategic transactions.

I have the greatest confidence in Herbalife's CEO, Michael Johnson, and the entire management team, who have skillfully led the Company through adversity, including holding firm against a high-profile PR campaign against the Company by Bill Ackman where it was alleged more than once that the Company would be shut down. Obviously, we are still here. I genuinely commend management's steadfastness in the face of short sellers desperate to rally a bear raid based on false accusations. The short-sellers should also note that since joining the Board three years ago, we have paid attention to their accusations and while the vast majority have been baseless, a handful of their points were valid and the Company has made appropriate changes. Interestingly, ending and modifying certain practices has not hurt earnings one iota.

"The FTC settlement announced today, coming after a two-year investigation also concluded that Herbalife is not a pyramid scheme – a conclusion that obviously vindicates our research and conviction."

(1) http://carlicahn.com/carl-icahn-issues-statement-in-response-to-herbalifes-settlement-with-the-ftc/

Video Clip

The FTC Complaint

Herbalife Does Not Offer Distributors a Viable Retail-Based Business Opportunity

There is minimal retail demand for Herbalife's products

- *"[M]any of the Distributors whom Defendants would expressly or impliedly characterize as solely 'discount buyers' are, in fact, pursuing the business opportunity."* (1)
- *"[P]romised retail sales to customers simply are not there."* (2)
- *"[S]elf-consumption is not driven by genuine demand for the product, but is the easiest and most convenient way for a Distributor to get some benefit from product that the Distributor would not have bought absent his or her participation in the business opportunity."* (3)

At best, "Discount Customers" comprise 25% of total volume

- *"Even using a grossly overstated measure of 'discount buyers,'" informed by "Defendants' data," "it is clear that collectively they [discount buyers] could account for only a small percentage of the volume of Defendants' products sold in the United States… such Distributors collectively account for less than 25% of the volume of Defendants' products sold in the United States. The remainder, over 75%, is purchased by Distributors at the "Sales Leader" level, who are clearly pursuing a business opportunity."* (4)

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at 28.
(2) Id., at 18.
(3) Id., at 22.
(4) Id., at 29.

Herbalife Does Not Offer Distributors a Viable Retail-Based Business Opportunity

A significant percentage of total volume is merely qualification buying

- "*Higher-level Distributors who are eligible to receive reward payments frequently buy Herbalife products in order to meet the thresholds for obtaining these rewards, rather than to satisfy consumer demand… analysis of Defendants' purchasing data reflects… they frequently purchased almost precisely the amount of product necessary to qualify for the payment.*" [(1)]

- "*[P]articipants at the highest status levels who must make monthly product purchases in order to earn recruiting rewards are the most robust wholesale purchasers of Herbalife products... such high-level participants purchased on average almost eight times as much product per person as participants at the lowest level of 'Sales Leaders' (Supervisors), who by and large were ineligible for such recruiting rewards.*" [(2)]

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.37.
(2) Id., at p.38.

Herbalife Does Not Offer Distributors a Viable Retail-Based Business Opportunity

What little retail exists is not profitable

- "*The retail sale of Herbalife product is not profitable or is so insufficiently profitable that any retail sales tend only to mitigate the costs to participate in the Herbalife business opportunity*."(1)

- "*The overwhelming majority of Distributors who attempt to retail the product make little or no net income, or even lose money, from retailing the product.*" (2)

- "*Analysis of Defendants' own Distributor purchase data shows that, even under favorable assumptions about Distributors' market reach and sales price… half of Distributors whom the Defendants designate as "Sales Leaders" average less than $5 per month in net profit from retail alone, and half of these Distributors lose money.*" (3)

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(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.5.
(2) Id., at p.22.
(3) Id., at p.18.

Nutrition Clubs are Nothing More than a Recruiting Scheme

Nutrition Clubs lose money and are simply a recruiting vehicle

- *"[M]any Distributors find it all but impossible to make enough money from retail sales of product to cover the overhead of the club and also generate income for the owner."* (1)

- *"Defendants' own telephone survey… paints a discouraging picture… Fifty-seven percent of Nutrition Club owners reported that their clubs made no profit or lost money. Club owners reported spending an average of about $8,500 to open their club."* (2)

- *"Some Nutrition Club owners continue to operate their clubs for little or no profit —or at a loss— for years… the promised retail-based business opportunity is simply not there."* (3)

- *"Because Nutrition Clubs are expressly not retail establishments and are often unprofitable, they are principally of value to a small minority of financially successful Herbalife Distributors as a location from which they can recruit new participants… 'Successful' Nutrition Club owners make money not from retailing product, but from recruiting other participants who are encouraged to open their own clubs, buy more product, and recruit more participants."* (4)

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.20.
(2) Id., at p.21.
(3) Id.
(4) Id.

Herbalife's Business Opportunity is Based Entirely on Recruitment

Absent a viable retail-based business opportunity distributors focus their efforts on recruiting

- "*Notwithstanding Defendants' express and implied representations that Herbalife offers a retail-based business opportunity, in truth the only way to achieve wealth from the Herbalife business opportunity is to recruit other Distributors.*" (1)

- "*Indeed, for years, Herbalife's business model primarily compensated members for recruiting new distributors to purchase product, not for selling product at retail to users outside of the Herbalife network.*" (2)

- "*Defendants' compensation structure incentivizes Distributors to purchase thousands of dollars of product to receive recruiting-based rewards and to recruit new participants who will do the same… In the absence of a viable retail-based business opportunity, recruiting, rather than retail sales, is the natural focus of successful participants in Defendants' business opportunity. Thus, participants' wholesale purchases from Herbalife are primarily a payment to participate in a business opportunity that rewards recruiting at the expense of retail sales.*" (3)

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(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.23.
(2) https://www.ftc.gov/system/files/documents/public_statements/971213/160715herbalifestatement.pdf
(3) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.38.

The Overwhelming Majority of Herbalife Distributors Do Not Make Any Money

The vast majority of distributors lose money

- “*The overwhelming majority of Herbalife Distributors who pursue the business opportunity make little or no money, and a substantial percentage lose money.*” (1)

The small minority that do make money do so from recruiting

- “*[T]he small minority of Distributors who receive substantial income through Herbalife are primarily compensated for successfully recruiting large numbers of business opportunity participants who purchase Herbalife product.*” (2)

Compensation is concentrated amongst the very senior ranks of the pyramid

- “*Rewards are highly concentrated among a small number of Distributors. In contrast to the experience of the vast majority of Distributors who make little or no money from recruitment-based rewards…*” (3)

- “*Income from recruiting is low even for many in the top 13% of all Distributors… this elite group received average gross reward payments from Defendants of under $300 for the year*.” (4)

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.5.
(2) Id.
(3) Id., at p.26.
(4) Id.

Herbalife – A False Business Opportunity

Herbalife and its distributors systematically engage in deceptive representations to recruit prospective distributors

- *"In numerous instances in connection with the advertising, marketing, promotion, offering for sale, or sale of the right to participate in the Herbalife program, Defendants have represented, directly or indirectly, expressly or by implication, that consumers who become Herbalife Distributors are likely to earn substantial income. In truth and in fact… consumers who become Herbalife Distributors are not likely to earn substantial income."* (1)

Not surprisingly, distributors ultimately abandon the business opportunity in large numbers

- *"In light of their poor financial results, many Distributors either stop buying product or leave the organization altogether, resulting in a high turnover rate."* (2)

- *"Retention for non-Sales Leaders, many of whom are pursuing the business opportunity, is even worse. An analysis of Defendants' data shows that the majority of Distributors stop ordering Herbalife products within their first year, and nearly 50% of the entire Herbalife U.S. Distributor base quits in any given year."* (3)

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.39.
(2) Id., at p.23.
(3) Id.

FTC Definition of a Pyramid Scheme:

"Pyramid schemes now come in so many forms that they may be difficult to recognize immediately. However, they all share one overriding characteristic. They promise consumers or investors large profits based primarily on recruiting others to join their program, not based on profits from any real investment or real sale of goods to the public."

(1) https://www.ftc.gov/public-statements/1998/05/pyramid-schemes

Herbalife: FTC's Findings Nearly Identical to Vemma

Conclusion: [(1)]
"In sum, Defendants' compensation structure incentivizes Distributors to purchase thousands of dollars of product to receive recruiting-based rewards and to recruit new participants who will do the same…

"[M]ost Herbalife participants earn little or no profit, or even lose money, from retailing Herbalife products.

"In the absence of a viable retail-based business opportunity, recruiting, rather than retail sales, is the natural focus of successful participants in Defendants' business opportunity.

"Thus, participants' wholesale purchases from Herbalife are primarily a payment to participate in a business opportunity that rewards recruiting at the expense of retail sales".

Conclusion: [(2)]
"In sum, unlike legitimate multilevel marketing businesses, Defendants reward Affiliates for recruiting and for purchasing products to maintain bonus eligibility rather than for selling products to ultimate-user consumers…

"As alleged above, Defendants promote participation in Vemma, which has a compensation program based primarily on providing payments to participants for the recruitment of new participants, not on the retail sale of products or services, thereby resulting in a substantial percentage of participants losing money.

"Defendants' promotion of this type of scheme, often referred to as a pyramid scheme, constitutes a deceptive act or practice in violation of Section 5(a) of the FTC Act, 15 U.S.C.§ 45(a)."

The FTC's findings are substantively identical to the FTC's conclusions in Vemma

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.38.
(2) FTC v. Vemma Nutrition Company, et al. (August 17, 2015). Case No.15-cv-01578, Dkt. No.9. Complaint for Permanent Injunction and Other Equitable Relief, at p.22.

While Herbalife likely negotiated to prevent a "pyramid scheme" label as a condition of its Settlement Agreement with the FTC, the FTC findings make clear:

<u>Herbalife is a pyramid scheme</u>

Injunctive Relief

The Heart of the Settlement - Injunctive Relief

The impact on HLF's business will be dictated by the injunctive relief

The "key goal is to dismantle the alleged deception and unfairness built into how Herbalife does business. As the company rewrites its advertising claims and restructures its compensation system, we'll be watching"
- *FTC blog 7/15/16*

"An order that requires Herbalife to restructure its business from top to bottom – and to start complying with the law"
- *FTC blog 7/15/16*

"A major restructuring of business operations"
- *Edith Ramirez, FTC Chairman 7/15/16*

"It's no longer business as usual at Herbalife"
- *FTC blog 7/15/16*

"The FTC's settlement significantly restructures Herbalife, changing – top to bottom – how it does business"
- *Statement of Lois Greisman, Associate Director, FTC Division of Marketing Practices*

The Settlement Limits Compensation to Verifiable, "Profitable Retail Sales"

Herbalife currently compensates distributors based on their wholesale purchases of products and purchases of their downline

Now, Herbalife can only pay distributor compensation based on verifiable sales of products to real customers

- Sales to "Preferred Customers" – people who register to be Herbalife customers only, who receive product discounts but are not themselves permitted to sell, recruit or earn compensation
- Sales to Preferred Customers in the distributor's downline
- Profitable retail sales of the distributor's downline
- Limited personal consumption

Herbalife can only pay its distributors compensation at the current levels if 80% or more of the Company's sales fit into one of the above categories

Limiting compensation to verifiable, "Profitable Retail Sales" is a problem for Herbalife because:

"*Defendants' program does not offer participants a viable retail-based business opportunity.*" (1)

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.4.

Obligation to Collect and Maintain Documentation

Herbalife is now required to collect and maintain Retail Sales Information and "take all reasonable steps" to ensure the accuracy of the information

- Method of payment
- Products and quantities sold
- Date
- Price paid
- Purchase name and contact information
- Signatures on paper receipts

Herbalife has previously said collecting such information in an organized way would be unduly burdensome and costly, and would violate customer privacy

PSCM even offered to pay for it

Now Herbalife suggests this is just a minor adjustment to the way it does business…

Qualification Purchases Are Prohibited

Herbalife currently requires distributors to make large product purchases in order to qualify for compensation and to advance in the Marketing Plan

Qualifying purchases by distributors are prohibited

Any volume thresholds/requirements for compensation, discounts, and advancement in the Marketing Plan must be met exclusively through "Profitable Retail Sales" and Sales to Preferred Customers

- In order to make money with Herbalife, distributors must make profitable retail sales
- According to the FTC, retail sales "are simply not there"[(1)]
- Gaming the marketing plan is no longer an option
- What incentive to sign up remains?

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Case No.2:16-cv-05217, Complaint for Permanent Injunction and Other Equitable Relief, at p.18.

New Training Requirements for Distributors and Restrictions on Misleading Income Claims

The “training” currently offered by Herbalife and its distributors focuses on recruiting others into the business opportunity with false and misleading income claims

Misleading income and lifestyle claims are now prohibited

Now, the company cannot pay any compensation to distributors until they complete a company training course, to include:

- How to document sales
- How to create a business budget and manage income and expenses
- Accounting for expenses and calculating profit or loss
- Prohibited and permissible representations to potential distributors
- How to submit a complaint to the company and to law enforcement

New Training Requirements for Distributors and Restrictions on Misleading Income Claims (cont'd)

How will this change the pitch to prospective distributors?

BEFORE

"How many of you would like to make at least a million dollars a year in income?"

"Be your own boss."

"The opportunity to earn more than you ever thought possible and make your dreams come true!"

"We went from bankruptcy to being set for life!"

GOING FORWARD

IV.

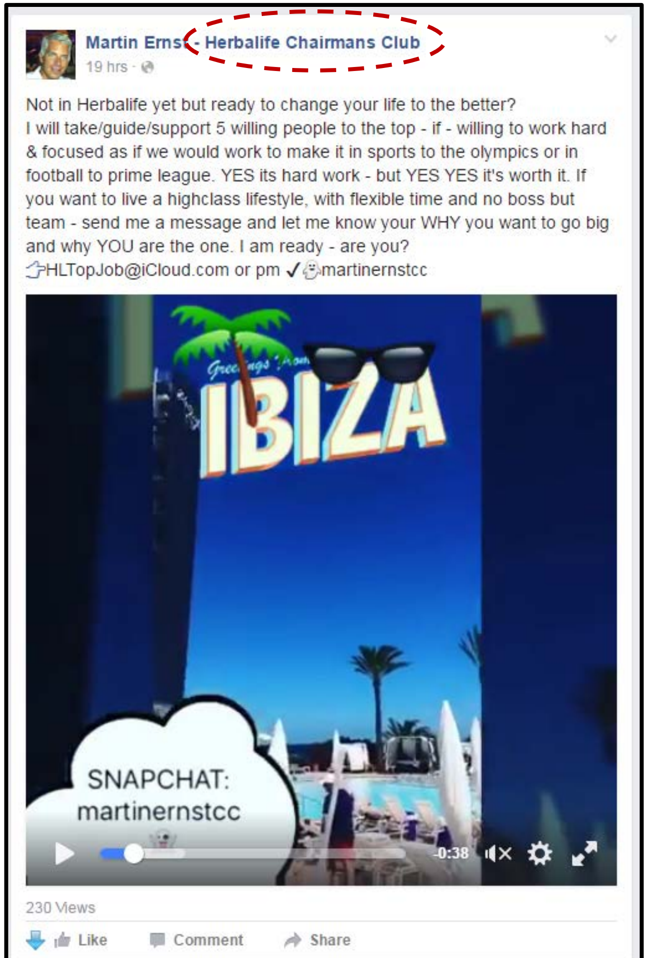
PROHIBITION AGAINST MATERIAL OMISSIONS AND UNSUBSTANTIATED INCOME REPRESENTATIONS

B. Making any representation, expressly or by implication, regarding the amount or level of income, including full- time or part- time income, that a participant can reasonably expect to earn unless the representation is non- misleading and, at the time such representation is made, Defendants possess and rely upon competent and reliable evidence sufficient to substantiate that the representation is true. Implied

(1) FTC v. Herbalife International of America, Inc., et al. (July 15, 2016). Stipulation to Entry of Order for Permanent Injunction and Monetary Judgement.

Herbalife Distributors are Already Violating the FTC Settlement Agreement

- Meanwhile, HLF senior distributors continue to peddle false and misleading income representations in violation of the FTC Settlement Agreement



(1) Source: Facebook.

Herbalife Distributors are Already Violating the FTC Settlement Agreement (cont'd)

- Meanwhile, HLF senior distributors continue to peddle false and misleading income representations in violation of the FTC Settlement Agreement

(1) Source: Facebook.

Herbalife Distributors are Already Violating the FTC Settlement Agreement (cont'd)

- Meanwhile, HLF senior distributors continue to peddle false and misleading income representations in violation of the FTC Settlement Agreement

(1) Source: Facebook.

Meaningful Restrictions on Nutrition Clubs

The FTC has concluded that nutrition clubs operate primarily as a tool for recruiting new members and that their expenses of operation often surpass any income earned

In order to protect consumers, Distributors cannot lease a physical location or portion thereof until they have:

- Been a distributor for at least 12 consecutive months
- Successfully completed a company training course (in addition to the training course all distributors must take) that includes how to operate a business and comply with local laws
- Prepared a written business plan that meets specific criteria

Restrictions to Follow High Level Distributors Even If They Leave Herbalife

- For ten years, Herbalife must deliver the Settlement Agreement to and obtain signed acknowledgements of the agreement from:
  - Officers, directors, LLC members
  - Employees and agents
  - Founder's Circle & Chairman's Club members

ORDER
I.
PROHIBITED BUSINESS PRACTICES

IT IS ORDERED that Defendants, Defendants' officers, agents, employees, and all other persons in active concert or participation with any of them, who receive actual notice of this Order, whether acting directly or indirectly, are permanently restrained and enjoined from advertising, marketing, promoting, or offering any Multi- Level Marketing Program unless such program has the following characteristics:

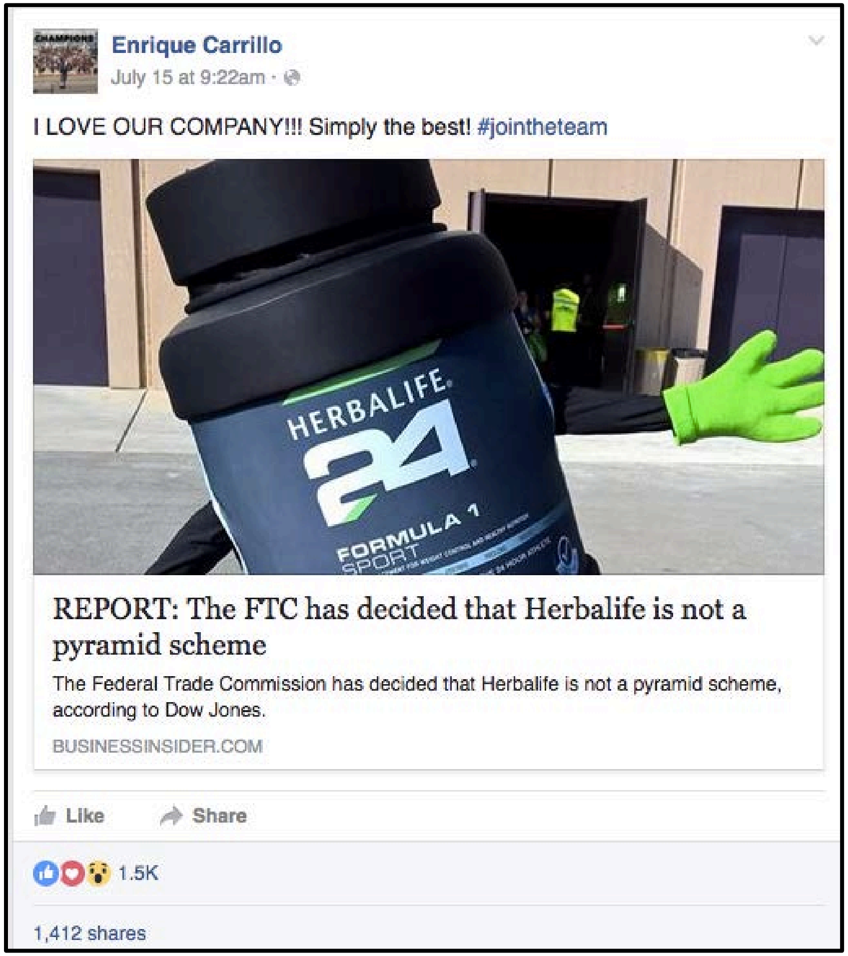
Signatories are permanently barred from promoting another MLM Program that does not have the compensation limitations now required of Herbalife… When presented with these facts how many distributors will actually sign?

The HLF Spin Machine

Even before the FTC Settlement was announced, Herbalife began to engage in deceptive characterizations of the FTC settlement and its impact on its own business in an effort to prevent distributor flight.

Herbalife's Spin Machine

- Herbalife's deceptive characterization of the settlement has been accepted by the media and is being promoted by senior HLF distributors in an attempt to stop distributor flight



(1) Source: Facebook.

Herbalife's Spin Machine (cont'd)

- A post from Herbalife Board Member and Chairman's Club member John Tartol's nephew undermining the FTC Settlement Agreement:

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Zachary Tartol
So whenever the FTC does investigation there's always a chargeback fee for that investigation. Perfect example General Electric just had the fee by the FTC like ours. The amount of the fee is dependent upon whether or not their violations being done and also how bad the violations are. This was the absolute best case scenario for us that's why our stock soared when the FTC announced. So percentagewise 200 million is kind a like somebody making $100,000 year paying back the government $2000. It's nothing we're writing one check and we're done with it and we've already moved on. We're doing

close to $10 billion. The accusations that Herbalife was a pyramid were 100% proven false.
How the FTC wrote the report is they used it as a template for all other MLM companies. So now the FTC is going to start looking at the other companies and using our agreements to regulate them. This is an ideal situation for us because we designed the regulations around Herbalife. SCORE👍 The hearing was not just regarding Herbalife it was regarding all multilevel marketing companies operating with in the United States.

(1) Source: Facebook.

Bullish Assertions About the Settlement Are Dishonest

- Below is some of the spin we've heard from the Herbalife camp regarding the FTC settlement:

HLF CEO Michael Johnson: "The FTC settlement is an acknowledgment that our business model is sound" (1)

The FTC settlement requires a "top to bottom"(2) restructuring of HLF's business model to "dismantle the alleged deception" and "start complying with the law" (3)

"[T]he crux of the FTC settlement is the injunctive relief, which requires sweeping changes to the core of Defendants' business... The requirements of Section I are themselves so far reaching that, to allow Defendants sufficient time to retool their U.S. operations, those provisions would not become effective until ten months after entry of the order… Section I.A requires the fundamental restructuring of Herbalife's business opportunity from one that is based on wholesale purchases of product to one that is based on retail sales of product." (4)

Carl Icahn: "The FTC settlement announced today, coming after a two-year investigation also concluded that Herbalife is not a pyramid scheme" (5)

The substance of the FTC complaint includes all the indicia of a pyramid scheme

"I do not endorse that statement [referencing Icahn's statement]." (6)

(1) http://www.herbalife.com/StrongerThanEver?cmp=M_US_EN_WBS_SummerPromotionHL_BTN_XXX_Stronger_20160715
(2) https://www.ftc.gov/news-events/blogs/business-blog/2016/07/its-no-longer-business-usual-herbalife-inside-look-200
(3) Id.
(4) FTC v. Herbalife International of America, Inc., et al. (July 18, 2016). Case No.2:16-cv-05217-CAS-GJSx, Plaintiff's Response to Defendant's Notice of Related Cases, at p.3.
(5) http://carlicahn.com/carl-icahn-issues-statement-in-response-to-herbalifes-settlement-with-the-ftc/
(6) FTC Chairwoman Edith Ramirez. FTC Press Event Regarding Herbalife International of America, Inc.(July 15, 2016)

Bullish Assertions About the Settlement Are Dishonest (cont'd)

Herbalife would not have agreed to these terms if it couldn't live with them

Response: The alternative would have been protracted litigation with the FTC where Herbalife would have been labeled a pyramid scheme.

Response: "In our view it's both beneficial for consumers to enter into what we think is strong relief rather than litigating every case to conclusion… when we can't reach a good settlement we will not hesitate to litigate." [(1)]

The settlement with the FTC only impacts ~22% of Herbalife's business

Response: "The FTC works with more than 100 foreign competition and consumer protection authorities around the world, and cooperates with foreign authorities on enforcement and policy matters through formal and informal agreements" [(2)]

Response: The FTC relied upon the analysis of the Italian Competition and Markets Authority when charging Vemma[(3)] **– we expect other regulators will leverage the work of the FTC to prevent their consumers from similarly being victimized by Herbalife's fraudulent business opportunity**

(1) FTC Chairwoman Edith Ramirez. FTC Press Event Regarding Herbalife International of America, Inc.(July 15, 2016)
(2) https://www.ftc.gov/policy/international/international-consumer-protection
(3) Federal Trade Commission v. Vemma Nutrition Company, et al. (August 17, 2015). Case No.15-cv-01578, Dkt. No.9. Memorandum of Law, at p.31.

"It's Only 22% of the Business"

- While it is true the U.S. accounted for 22% of net sales in Q1'2016, the impact to profitability will be significantly larger:
  - Herbalife's LTM reported Net Sales in the United States are $879 million(1)
  - At a ~43% contribution margin(2) this represents $375 million maximum potential EBIT exposure (assuming no commensurate SG&A reduction)

ILLUSTRATIVE EPS IMPACT

	Reference	Pro Forma Earnings		
Illustrative EBIT Impact		($200)	($300)	($375)
Tax Rate		38%	38%	38%
Illustrative Net Income Impact		($125)	($188)	($234)
Diluted Shares		85.6	85.6	85.6
Illustrative EPS Impact		($1.46)	($2.19)	($2.74)
HLF Management Guidance (Midpoint)	$4.58	$4.58	$4.58	$4.58
Pro Forma EPS	$4.58	$3.11	$2.38	$1.84
Implied P/E Multiple (~$65)	*14.2x*	*20.9x*	*27.3x*	*35.4x*

This analysis assumes no further regulatory action by other U.S. AG's, international regulators, etc. and no impact on intl. distributor recruiting

(1) Source: Herbalife public financials.
(2) Contribution Margin consist of net sales less cost of sales and royalty overrides.

HLF's Normalized Earnings Power

- Pro forma for the expected decline in the U.S. business, normalized EPS is significantly below consensus estimates
  - Herbalife adds-back multiple items we believe are true ongoing costs to the business

PRO FORMA EARNINGS POWER

	FY'2015	2016 Pro Forma Low	2016 Pro Forma High	Notes
GAAP EPS	$3.97	$3.76	$3.76	
(+) Expenses Incurred Responding to Attacks on the Company's Business Model	0.16	0.16	0.16	
(+) Expenses Related to Regulatory Inquiries	0.17	0.17	0.17	
(+) Noncash Interest Expense & Amortization of Noncash Issuance Costs	0.49	0.49	0.49	
(+) Venezuela Remeasurement	0.32	0.00	0.00	
(+/-) Other	(0.11)	0.00	0.00	
"Herbalife EPS"	$5.00	$4.58	$4.58	*>>> Midpoint of management guidance*
"Herbalife EPS" P/E Multiple (~$65)	*13.0x*	*14.2x*	*14.2x*	
(-) Expenses Incurred Responding to Attacks on the Company's Business Model	(0.16)	(0.16)	(0.16)	*>>> Ongoing cost to the business*
(-) Expenses Related to Regulatory Inquiries	(0.17)	(0.17)	(0.17)	*>>> Ongoing cost to the business*
(-) Noncash Interest Expense & Amortization of Noncash Issuance Costs	(0.49)	(0.49)	(0.49)	*>>> Ongoing cost to the business*
Normalized EPS	$4.18	$3.76	$3.76	
Normalized EPS P/E Multiple (~$65)	*15.6x*	*17.3x*	*17.3x*	
(-) Illustrative Impact on U.S. Business	NM	(1.46)	(2.19)	*>>> $200m - $300m impact on EBIT*
(-) Incremental Compliance Costs	NM	(0.07)	(0.15)	*>>> Incr. $10 - $20m compliance investment*
Pro Forma EPS	$4.18	$2.22	$1.42	
Pro Forma P/E Multiple (~$65)	*15.6x*	*29.3x*	*45.8x*	

This analysis assumes no further regulatory action by other U.S. AG's, international regulators, etc. and no impact on intl. distributor recruiting

(1) Source: Herbalife public financials. Bloomberg consensus estimates.

Conclusion

Next Steps

The FTC complaint and settlement provide a roadmap for regulators in 90 other countries around the world to enforce similar requirements.

China

- Very strict guidelines for direct selling
- In 2015, China represented 85% of organic growth[1]
- 19% of revenue[1]

Mexico

- 37,000 Nutrition Clubs[2]
- 11% of revenue[1]

European Union

- Italy acted against Vemma first
- Prior action against Herbalife in Belgium

(1) Herbalife 2015 Form 10-K.
(2) Herbalife Q4 2013 Earnings Call (2/19/14).

Next Steps (cont'd)

The SEC has been investigating Herbalife for more than three years. Based on the FTC's findings the SEC now has evidence that Herbalife has made numerous materially false and misleading statements to the investing public:

"We have millions of customers. Three separate research studies performed by separate leading research companies confirmed that there are millions of Herbalife customers and that the overwhelming majority are outside the network."(1) – Michael Johnson, CEO

"A large number of our distributors come in to make a little bit of money through retailing the product. They are single level distributors, not eligible for MLM compensation. We know that represents 73% of our distributor base based on the Lieberman survey, which means only sales leaders are eligible for MLM compensation."(2) – John DeSimone, CFO

"At the same time that interest in health is growing, we believe more and more people also value freedom to earn an income on their own terms, which is an opportunity we are very proud to offer." (3) – Michael Johnson, CEO

"Our standards of practice for our opportunity are industry leading. Our gold standard, our member training, our compliance functions, our disclosures regarding the income opportunity, and new member protections that begin before the new entrant ever signs up speaks to the rigor we apply to all levels of participation by our members."(4) – Michael Johnson, CEO

(1) Michael Johnson, Q4 2013 Earnings Call (2/19/14).
(2) John DeSimone, Herbalife Investor Day Presentation (1/10/13).
(3) Michael Johnson, Q4 2015 Earnings Call (2/25/16).
(4) Michael Johnson, Q3 2014 Earnings Call (11/4/14).

Conclusion

- **The findings of the FTC are those of the principal consumer protection agency in the United States, not those of a short seller.**
- **The FTC – with access to Herbalife's internal information and data – has independently confirmed all of the allegations of our investment thesis.**
- **We are short Herbalife because we believe intrinsic value is meaningfully below the current share price.**
- **Not only has Herbalife completely mischaracterized the settlement, it is already openly flouting its terms.**

"Here's what matters... [a]s soon as the judge enters the order, we will be all over the company. If they are not in compliance with the order, we will take action. We will not tolerate what has gone on."
- Lois Greisman
Associate Director, FTC Division of Marketing Practices

(1) http://nymag.com/daily/intelligencer/2016/07/judgment-day-arrives-for-herbalife.html