

From: EMPLOYEE NEWSNET [mailto:Employee_NewsNet@Amway.com]

Sent: Monday, June 5, 2017 11:10 AM

Subject: EMPLOYEE MEMO: BUSINESS UPDATE: Q1 2017

Employee MEMO

June 5, 2017

To All U.S. Corporate Employees
From Mike Cazer, Chief Operating Officer
Subject **BUSINESS UPDATE: Q1 2017**

IN THIS MEMO:

- March Year-to-Date Enterprise Results and Market Highlights
- AmwayNEXT Progress Across Priorities
- China Turn Around Plan Efforts
- Agility and Cost Structure Updates
- Growth Priorities - 2017 and Beyond
- Q1 2017 Incentive Projections

It has been a busy start to 2017. In January, we shared the three specific areas of focus for the enterprise: Refine, Focus & Advance AmwayNEXT – including the six priorities; Turn Around China; Drive Agility & Reduce Cost Structure. Great progress is being made across all three areas and China is beginning to show moderate signs of recovery. I would like to take a minute and share a business update as well as highlights worth noting across the enterprise.

March Year-to-Date Enterprise Results

Year-to-date (YTD) revenue through March was \$2,136 million, 3% ahead of Plan and 5% lower than 2016. Sales favorability versus Plan is being driven by stronger sales in China and successful product launches in India, partially offset by the U.S., Taiwan, Japan and Malaysia.

At the end of March, operating income was \$248 million which is 30% ahead Plan and 17% lower than 2016. Delayed spend in markets and higher sales volume from China, Europe and India are helping to drive Enterprise favorability versus Plan.

While China is continuing to respond favorably to efforts taken to turn the business around, we are also seeing strong results occurring in many markets across the globe. Below are a few more details behind what we're experiencing across some of our top markets.

Korea has posted YTD sales through March of \$255M which is +4% versus last year and on Plan. Korea is projected to be up 3% this year and is experiencing strong Air Treatment System and nutrition sales. This is Korea's 11th straight year of growth which is truly impressive.

Thailand, YTD sales through March were \$126M, which is +13% versus last year and +2% versus Plan. This market is continuing to rebound as we see a lot of positive momentum and strong marketing activities across nutrition, durables and personal care.

India is an amazing story. They were down 14% two years ago and last year, exceeded expectations and grew 1% despite the challenges they were facing. YTD sales through March were \$72M which is +19% versus last year and 6% ahead of Plan. Good news for India as things are stabilizing on the regulatory front and the ABOs and India leadership team continue to build on their great partnership. The market had a very successful cookware launch and are expected to exceed forecast.

Europe, YTD sales through March were \$107M which is 3% above Plan and 2016. Europe has been in a very difficult and declining environment for the past decade, but is showing signs of growth. Last year they grew 1% and will continue to strengthen this year due to some of the changes that have been made. Italy and Spain continue to grow while Germany remains in a decline.

Latin America (excluding Venezuela), YTD sales through March were \$42M which is 14% below Plan and down 1% versus 2016. The full-year outlook is projected to be up double digits for the fourth year in a row with continued strong growth in Mexico which is offsetting soft sales in Columbia. If Mexico continues to perform as they have been, they will enter the top ten markets for Amway which is quite an achievement.

Brazil YTD sales through March were \$7M which is 17% above Plan and +58% versus 2016. Brazil is experiencing the third straight year of nearly 50% growth. The team is doing a great job ensuring the growth is occurring in a healthy manner and that Leader Growth Solutions (formerly known as SAM, Strategic Account Management) is being utilized to drive success.

We also have a few important markets that are struggling. Japan has posted March YTD sales of \$231M which is -4% versus Plan and Prior Year. The market is experiencing slowed momentum after moving to a 100% growth based GIP (Growth Incentive Plan). With sales through March of \$225M, which is 5% below Plan and -4% versus last year, the United States is experiencing a softening after actions were taken to address sales plan manipulation. Another contributing factor is the slowdown of the Hispanic groups which account for almost 50% of their overall sales. This segment is experiencing increased anxiety over the immigration reform in the

U.S. resulting in a lack of confidence. Taiwan and Malaysia are also down this year after experiencing very impressive growth over the past years. Vietnam and Russia continue to face difficult external environment challenges.

Refine, Focus & Advance AmwayNEXT

In general, we are making good progress across all six priorities. Let's take a quick look at each.

ABO Compensation. The redesigned FAA program was presented at Founders Council in May and feedback from key leaders was very positive. The plan redesign was done in partnership with the field and ABO leaders understand the reasons for the changes. The core plan revision and the new GIP will roll out in September.

In looking at Young & Active, we're seeing an increase in investment across the company and where we have active pilots in place we're seeing good progress. XS continues to improve our engagement, but we are not seeing an improvement in key performance indicators (KPIs). This will continue to be a key focus as every market that has KPIs is intent on meeting them.

Digital is really the Hybris program and the deployment of our website replacements. We're on track and have gone live with key elements of Hybris in Korea, India, Malaysia, Philippines, Brunei, Singapore and Brazil. Initial results are very positive with improvement in metrics, particularly in e-commerce and mobile ordering.

Training is another big area of opportunity and we have established KPIs for what we want to improve. In 2016, Amway North America launched online, short comprehensive business training videos and studioABO went live in Asia Pacific. We're starting to see improvements in metrics as a result, with an increase in sponsoring in North America and a 28% improvement in activation rates in Japan. We have a long way to go, but we are investing in the capabilities and training needed to help us reach our goal.

We're still early in the game with ABO/Customer Segmentation as it was just added to the AmwayNEXT priorities at the beginning of the year. We are seeing some key learnings coming out of pilots underway in Russia, India and North America, but there is a lot more to do in this area.

Product Innovation is another area generating interest with a lot of excitement around the products we will be launching in the near-term such as Atmosphere Drive, Atmosphere Sky, Artistry Signature Select, Nutrilite Vitamin B Complete and others. Based on important lessons learned from the canceled Project Renaissance, we will continue to invest time, resources and funds in product development, but will do so in a more effective manner.

Overall, we are heading in the right direction with refining and advancing AmwayNEXT, but there is more work to be done.

Turn Around China

The China team spent the end of 2016 identifying the issues and formulating a plan with implementation taking place in early 2017. The plan had a few key elements including: adding

incentives in key areas targeting lower level ABOs and buyers; creating a training subsidy primarily at the higher level of leadership; enhancing recognition and training for new Silver producers and for new Platinums; and identifying healthy KPIs in partnership with the field. In terms of overall business performance, we're seeing a significant strengthening trend and we're performing ahead of where we thought we would be. The healthy business metrics for our ABOs are improving faster than anticipated and we are seeing the output in terms of sales. We are ahead of Plan year-to-date and we expect to be even more ahead of plan for the full year, but we still have work to do before we are back to previous levels of growth.

Drive Agility and Reduce Cost Structure

Anticipate, Adapt and Act is a great framework for us to use in thinking about Agility in relationship to our activities and what we need to do to be successful in our operating environment. There are great examples of this framework in action around the company including ITM Next and improving the speed to market and the Drive product and its innovation. The world's moving incredibly fast and if we move in a very functional, structured, historic way, we're going to be left behind. It's not a cost issue, it's an overall business ability to evolve and be relevant in today's environment.

Our focus on reducing cost structure is in response to the size of the business over the next several years. Just like a lot of other companies that go through ups and downs, we're in the process of getting our cost structure right to support the size of the business we expect to be in the future and position us for future growth. In 2017, we set some pretty aggressive targets to ensure we are responding to the softening sales in China. Thanks to your hard work and efforts, we are on track to deliver \$100m in savings this year across the company. We are also focused on not taking actions that are short-term in nature, but that we're putting the right structure in place for us to be successful and competitive at today's level of revenue. Going forward, we have identified programs to secure the savings needed in 2018 as well as areas of needed reinvestment. As those plans are developed, they will be included in the LRBP. I would like to say, good work on cost structure.

Growth Priorities – 2017 and Beyond

Recently, executive staff met offsite to discuss how we can improve the company's growth prospects. Our leaders believe this business has additional untapped potential that can help us reach a higher, sustainable annual growth rate. After much discussion, the group prioritized four ideas.

Help our ABOs grow a healthy buyer base to help achieve and sustain qualification goals.

Young & Active – make Amway a leading choice for young people interested in entrepreneurial opportunities.

Deliver non-cash awards and recognition programs that drive sustained growth.

Re-focus Go-To-Market Around the ABO – organize ABO impacting activities and functions around leaders that have the right focus and passion for the business.

These four ideas are in early development, but we think they will be key to increasing our growth rate. You'll hear more about these four growth ideas in the coming months.

Q1 2017 Incentive Projections

Based on first quarter financial results, you can see below how the enterprise is performing against our 2017 targets. The ACIP results shown below reflect the actions being taken by China to correct behavior and stabilize the market, but also reflect your attention to managing costs and increasing efficiency.

For employees measured on enterprise results, we are projecting the company performance multiplier to be 128%.

2017 ENTERPRISE FINANCIAL MEASURES (in millions)			
Q1 FINANCIAL PERFORMANCE PROJECTIONS			
	WEIGHT	TARGET	Q1 PROJECTION
Revenue	30%	\$8,206	\$8,335
Operating Income	70%	\$805	\$838
Q1 Projected Company Performance Multiplier (% of target)			128%

Please note: Additional information on the incentive plans, including a sample calculation for individual payouts, can be found on HROnline in My Compensation > Incentive Programs.

The profit sharing contribution, driven by overall Enterprise operating income performance, is tracking at 3.79%, higher than our target of 3.0%.

To conclude, I would like to say I'm pleased with the progress to date, but there's more work to be done and we need to stay focused. We will need to continue to make hard decisions to ensure we have the right structure and the right resources in the areas that are essential for the future success of the company. Examining how we operate and how we can be more efficient needs to become a regular part of doing business. We have great products and such great employees who are committed to this business. Amway plays an important role in the world of giving people the opportunity to have a business of their own without a huge monetary

investment. This would not be possible without all of you. Thank you for your continued hard work and dedication.

#

#