



NBEV Shareholders got Duped in the Morinda Transaction

- In December 2018, New Age Beverage (NASDAQ:NBEV) completed its merger with multi-level firm (MLM), Morinda, to help reverse losses NBEV has sustained since completing its reverse merger in 2016. NBEV Paid Morinda \$75 million in cash and \$10 million in stock to complete the transaction.
- While Morinda reported 2016 revenue from China of \$68m in 2016, SAIC filings show that real revenue of Morinda was only \$33m in that year!
- Financial filings from China also show that Morinda had a big net loss of \$32m in 2017 from its China operations.
- National filings show that Morinda's European operations gave up their headquarters in 2017 and was in the process of winding down the company. The winding down process was expected to be completed less than three months of the completion of the merger.
- NBEV's CEO boasts that \$46 million in cash came along with Morinda. However, we don't believe investors clearly understand that over \$50 million will have to be paid out to Morinda shareholders.
- In short, we believe NBEV got duped by buying a dying business with inflated financials.
- We believe that Morinda's China business is in jeopardy of being totally shut down, supporting our conclusion that any growth Morinda is claiming it has experienced in China, or

Company

New Age Beverage Corp.

Ticker

NBEV

Industry

Beverages – Soft Drinks

Exchange

NASDAQ

Price (as of June 26th 2019)
\$4.56

Shares Outstanding
75.2m

Daily Volume
5,136,000

Projected Downside
60%

Publication Date June 27th
2018

that NBEV is expecting to realize from China is in the rear-view mirror and irrelevant.

- Our research combined with our on-the-ground research proves that Morinda is conducting illegal MLM operations in the majority of China provinces/cities that it operates in. Specifically, it is doing business in regions where it does not have a direct selling license to operate in.
- The number of MLM companies that China regulators have forced to suspend their China operations, now stands at 5 in 2019, including \$NHTC. Morinda's Primary product (90% of sales), appears to have the similar Chinese name of the product that was the subject of a China Central Television (CCTV) scathing 2019 expose on NHTC.
- We believe NBEV's CEO is highly promotional, but has proven to be unable to successfully build companies for extended periods of time, as evidenced by the two previous public companies he was the CEO of that ended badly for shareholders.
- A shady auditor and a lack of checks and balances set NBEV up for failure
- We believe the stock will collapse and see immediate downside of 60%

Introduction

New Age Beverage Co. (NASDAQ:NBEV) is a manufacturer and distributor of beverages. We believe NBEV's recently closed merger with a multi-level marketing (MLM) company, Morinda, for \$85 million will be a disaster for NBEV shareholders. We see immediate downside of at least 60%. But we believe the picture will get much worse, leading to a scenario where NBEV will become insolvent. NBEV lost \$12 million in 2018, but it appears that management is expecting that the addition of Morinda will change that. Management has clearly stated that the Morinda transaction will be a transformational event for the company:

CFO:

" Clearly, the financial combination is transformative for New Age, and we believe the level of acceleration from the transaction for shareholders will be outstanding. "

CEO

" Now we should start to see why Morinda makes so much sense for us, especially from our CBD-infused beverage portfolio and the Health Sciences Division."

" So clearly Morinda brings the attractive financial implication, organizational underpinning and strengthening,"

While it appears on paper that NBEV executed a "too good to be true" deal by thinking it paid less than 0.5 times 2017 sales (as well as the 2018 implied revenue run-rate at the time of the transaction) for a seemingly profitable company, we will show why we believe Morinda is not as advertised. For example, we found that Morinda's European operations are in the process of being wound down and **that Morinda sold itself to NBEV just months after it was expected to formally close all European corporate matters.**

Furthermore, while during a conference call, NBEV's CEO boasts about \$46 million in cash & cash equivalents that came with the Morinda merger, he failed to comment that over \$50 million in contractual obligations are owed to Morinda shareholders.

Most importantly, Morinda derives a substantial amount of its revenues from its China MLM business. Knowing this, we deployed our on the ground team in China to find out two things:

1. Does the company have the licenses as an MLM business to operate in the China provinces in which it sells its products?
2. Are Morinda's financials that were disclosed to NBEV and shareholders in SEC filings accurate?

The answers to these two questions are why we are short the stock.

Inadequate Licenses

Regarding its China business, we found that **Morinda is operating illegally** in 60% of the provinces it is running its business in. This is a very important point. The regulatory framework in China on this matter is so strict that just the mere fact that a company would have an office in a particular province that it does not have a license to operate in is a violation. There was a time when this kind of evidence would not be a big deal and thought of as boilerplate. However, it's no secret that China is finally cracking down on illegal MLM activity.

In early 2019, China regulators forced Natural Health Trends Corp. (NASDAQ: NHTC) to suspend its operations in China, shortly after China Central Television (CCTV) aired a critical report on the company. Shares fell as much as 32% on the day the story aired and are now down around 60%. Interestingly, Morinda's primary product (90% of sales), appears to have the similar Chinese name of the product that was the subject of a China Central Television (CCTV) scathing 2019 expose on NHTC.

We are still waiting for China regulators to release its "blacklist" of untrustworthy MLM companies and participants operating in China. We believe there is a high probability that Morinda or its main operating entity in China, Tahitian Noni Beverage (China) Co., Ltd., will be on this list. Regardless, we believe that

the crackdown on NHTC along with the bad press on Noni Juice cannot be good for Morinda's near-term sales prospects.

What we do know is that China regulators were [reported](#) to have suspended handing out any new licenses amid a nationwide crackdown on wrongdoing in the health products market. Thus, even if Morinda were still permitted to operate its China business, it appears that it would need to at least cease operations in 6 out of the 10 provinces/cities it currently operates in.

So far, according to numerous reports in China, Chinese regulators have tried to crack down at least 4 big scale MLM companies **with direct-selling licenses** in China - Hualin Group ([report link](#)), Quanjian Group ([report link](#)), Infinitus (China) ([report link](#)), and Tianshi Group ([report link](#)). Arrests have already been made in some cases.

Overstated Financials

Like has been done numerous times in the past with regards to uncovering discrepancies between financial information recorded in China and SEC filings, our evidence reveals that Morinda's financials that were disclosed in SEC filings are meaningfully higher than what were reported in China. In Morinda's case, we estimate that Morinda's revenues from China are inflated by 36% in 2017 and 51% in 2016.

Game Set Match

From whatever perspective we look at NBEV, any of the two China related issues will wipe away the profit contribution NBEV had hoped to realize from Morinda. The research we're about to present to you is brand new and has not been touched upon in other short thesis reports written about the company. We believe the Morinda issues we have highlighted will soon become evident, serving as THE catalyst to send shares sharply lower, with the company ultimately experiencing the same fate previous companies run by NBEV's CEO have met.

Under the helm of CEO Brent Willis, NBEV has engaged in an aggressive roll-up strategy fueled by a series of equity raises where shares outstanding have risen more than 100% to 75 million shares. Morinda is the sixth transaction (including its initial reverse merger) that NBEV has made since completing a reverse merger to go public in 2016. While we are doubtful about a roll-up strategy that has resulted in cumulative negative operating cash flows of \$17.8 million since it became a public company in 2016, racking up losses every year. Morinda is NBEV's biggest transaction to date, and the one that we think will break the camel's back.

The evidence we collected leans on our expertise of performing on-the-ground due diligence in China to bring transparency to U.S. investors that invest in China based companies or companies doing business in China.

NBEV's CEO recently [sold](#) 300,000 shares, netting him proceeds of \$1.6 million, and we think we know why.

Some Background on Morinda

Morinda is a multilevel marketing company. Founded in 1996, Morinda sells various health products, but 90% of its revenue is generated from its Tahitian Noni Juice product. While the juice is portrayed to have several health benefits, none were ever substantiated in scientific studies. This didn't stop Morinda from making bold claims about its products in order to recruit more people into their multi-level marketing structure. From the very beginnings, Morinda had run ins with the law.

As early as 1998, Morinda [was charged by multiple states](#) and settled for making bold claims regarding its Tahitian Noni juice including treating, curing, or preventing numerous diseases such as diabetes, depression, hemorrhoids and arthritis. As part of the settlement, Morinda had to refrain from making unfounded health claims about its products.

Similar to other multi-level marketing companies with a mediocre product, Morinda soon sought international expansion until it merged with NBEV in 2018.



More To The Morinda Transaction Than Meets The Eye

China Financials don't add up

Referencing SEC disclosures, Morinda's financials through the first nine months of 2018, ended September 31:

- sales were \$177.4 million, which works out to be \$236.5 million on an annualized basis
- adjusted net income was \$7.7 million (\$10.3 million annualized) and
- operating cash flow was \$6.1 million (\$8.1 million annualized)

Combined with NBEV's 2018 revenue of \$52 million, NBEV revenue would be tracking at annual run-rate of \$280 million. We can understand why investors got interested in the stock – In 2018, NBEV only produced revenues of \$52 million, a net loss of \$12 million and negative operating cash flow of \$21.8 million. At an \$85 million total consideration, the Morinda transaction seemed like a steal. \$75 million was paid in cash which was previously raised in a November 2018 [secondary offering](#).

The Morinda merger seemed almost too good to be true.

Morinda's second biggest market by revenue is China. According to NBEV's CEO, Brent Willis, Morinda is

experiencing great success:

“That business has grown about 20% per year and eclipsed -- this year it eclipsed more than \$80 million in revenue, and that's one of the overall growth engines for the overall company”
(Morinda CC Call 12/4/2018)

NBEV's [8K/A](#) filed on 03/01/2019 provides more color on Morinda's financials. According to these filings, China made up approximately 35% and 30% of overall sales for the nine-month periods ended September 30, 2018 and 2017, respectively. Notably, China is also where Morinda's biggest cash balance is allegedly sitting, totaling over \$20 million as of September 2018.

We have our on the ground team in China to pull financial filings on Morinda from the State Administration for Industry and Commerce (SAIC). SAIC filings have proven to be a one of the primary tools to discovering fraud in China.

In China, Morinda has been operating through two entities named Tahitian Noni Beverage (China) Co., Ltd. Rongchang Factory, and Tahitian Noni Beverage (China) Co., Ltd. (大溪地诺丽饮料(中国)有限公司 荣昌工厂 and 大溪地诺丽饮料(中国)有限公司 respectively). Rongchang Factory is where the Noni juice is processed, and Tahitian Noni Beverage (China) is the main operating entity of Morinda in China.

The financials we sourced from SAIC filings in China showed staggering differences:

	SEC Filings*		SAIC Filings	
	2016	2017	2016	2017
Revenue	\$68,156,000	\$68,746,000	\$33,009,000	\$43,837,000
Net Income	\$2,877,000	\$3,600,000	-\$18,096,000	-\$32,135,000

**assumes China was 30% of revenue in both years. Assumes China profitability is 30% of Morinda's total profitability..*

The deviations are staggering. When compared to SEC filings, Morinda's revenue disclosed in SEC filings are inflated by 51% and 36% in 2016 and 2017, respectively.

Another thing that strikes us as remarkable is how unprofitable China operations are according to SAIC filings, with a combined net loss of \$32m in 2017. We wonder how the overall company can show \$12m in net profit when China alone lost \$32m.

Even if you want to ignore our SAIC analysis and put faith in NBEV's SEC filings, things are not looking good for its legacy business and/or Morinda. According to SEC filings, NBEV lost \$12.1 million on a GAAP basis in 2018 and \$15.8 million after adjusting for a tax gain, one time gains/losses and non-cash items. On May 9, 2019 NBEV reported 2019 Q1 financial results which showed that the company is still bleeding money, even after including the contribution of one full quarter of Morinda. NBEV lost \$1.6

million on a GAAP basis and \$5.3 million after adjustments. The Q1 press release fails to mention that NBEV's legacy business is falling sharply, contracting 13% in Q1. Furthermore, the highly touted Marley brand assets, acquired in June 2017, is already facing challenges:

"Net revenue for the New Age segment **decreased by 13%** from \$11.6 million for the three months ended March 31, 2018 to \$10.1 million for the three months ended March 31, 2019. The decrease in net revenue for the New Age segment was primarily attributable to an increase in discounts and allowances of \$0.9 million which was driven by the increase in billbacks and discounts from two of our major distributors where we were impacted by significant charges on shipments we shorted because of our inventory challenges, and we faced a high level of changeover charges related to one of the products in the Coco-Libre brand and one of the products in the **Marley brand** which we are discontinuing to focus on products with higher future sales potential." - 2019 Q1 [SEC filing](#)

Also, even the SEC filings, which we believe are inflated, show that Morinda's revenue growth has stagnated, while its net income and operating cashflow are contracting.

	2016	2017	2018 ¹
Revenues	227,186,676	229,152,602	236,533,552
Adjusted Net Income	10,159,372	11,325,351	10,279,808
Operating Cash Flow	16,960,576	12,516,802	8,067,645

note: 2018 full year numbers were annualized based on financials as of 9 months 2018

Finally, based on NBEV 2019 Q1 financial results, which broke out Morinda's revenue contribution, Morinda generated revenue of \$48.2 million, implying an annualized run-rate of \$192.9 million. Any way you slice it, it looks like NBEV bought Morinda at the peak of its growth cycle and that Morinda is not on track to eliminate the losses NBEV is experiencing. But, we think it's about to get much worse.

Filings show Morinda is operating illegally 6 out of 10 Provinces/Cities

According to the [website](#) of Ministry of Commerce in China, Tahitian Noni Beverage (China) Co., Ltd. (大溪地诺丽饮料(中国)有限公司) obtained its direct-selling license approval in December 2014.

According to the website, the registered service locations of Tahitian Noni Beverage (China) Co., Ltd. (大溪地诺丽饮料(中国)有限公司) are in the following regions (please refer to Appendix 2 for detailed service locations in each region):

- City of Chongqing
- City of Shenyang, Liaoning Province
- Cities of Jinan, Weihai, Rongcheng and Rushan, Shandong Province

- City of Guangzhou, Guangdong Province

However, the SAIC records (Appendix 3) show that the company has branches in other regions that are not among the above list. For example, those regions are:

- City of Beijing
- City of Shanghai
- City of Nanjing, Jiangsu Province
- City of Hangzhou, Zhejiang Province
- City of Taiyuan, Shanxi Province
- City of Fuzhou, Fujian Province

One note to clarify for the regions regarding provinces and cities in this case is that, in China, there are 4 cities that are on the same governmental administration level as provinces, and they are the cities of Chongqing, Beijing, Shanghai, and Tianjin. Thus, when we put “provinces/cities” together, the “cities” within this context are referring to these 4 cities.

On the conference call, Brent Willis confirms that Morinda conducts business in 10 provinces:

“The company has already got offices in at least 10 different provinces and a major organization really focused in those 10 provinces”

In other words, the company has opened branches and has probably done business in cities that are not registered & approved by the government, which should be considered a violation of the rules for direct-selling in China. Regardless, the mere fact of setting up an office in an unapproved province is a violation.

Our On-The-Ground Due Diligence (OTGDD) Confirms Illegal Activities

Our on the ground due diligence confirms our suspicions. Our on the ground team visited branches/offices in the city of Shanghai, city of Hangzhou, Zhejiang Province, and the city of Nanjing, Jiangsu Province. Remember, these are offices in jurisdictions where Morinda does not have registered service locations and is not allowed to conduct direct selling businesses and sell products in any manner.

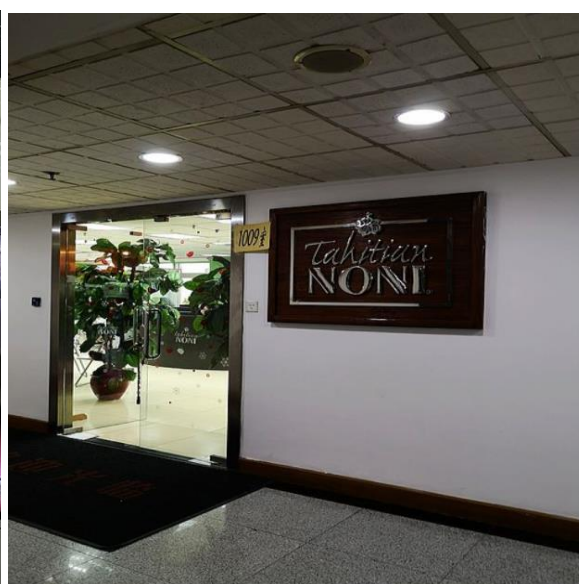
During the investigation, except for one office in city of Shanghai that appeared to be occupied by another company other than Morinda or Tahitian Noni Beverage (China) Co., Ltd., the rest of the offices/branches our on the ground team visited seem to be in operation during normal business hours in China.

Furthermore, our on the ground team was told by sales people in one of the branches in city of Shanghai that people interested in the products could place orders at that branch and they needed to fill out their personal information and mailing addresses so that products could be delivered to the buyers. In

another branch during the visit, our on the ground team was told that an order could be placed online. All these branches/offices that our on the ground team visited are not within the list of the service locations that are registered on the Chinese Ministry of Commerce's direct-selling industry management website. Thus, we believe that this is in clear violation to the direct-selling rules in China. Below are some of pictures at each of the branches/offices we visited.

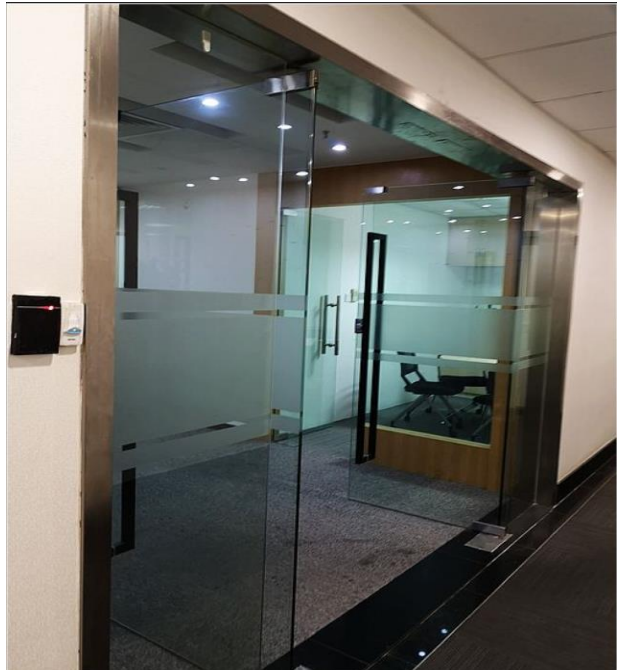
1. Tahitian Noni Beverage (China) Co., Ltd Shanghai Jing'an Branch (void of license)

Address: Nanjing West Rd. No.819, Room 1009-1011, Jing'an District, City of Shanghai, China



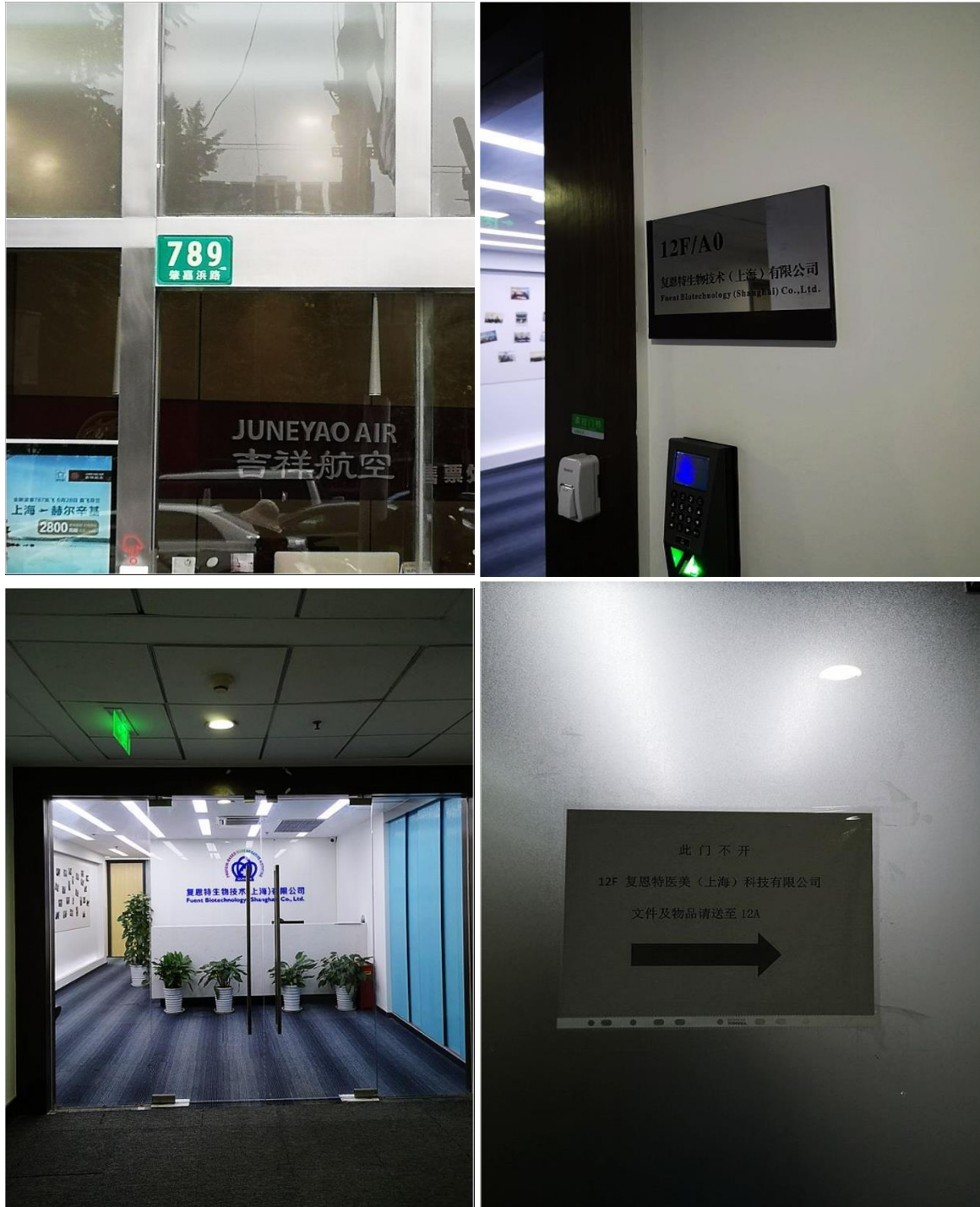
2. Tahitian Noni Beverage (China) Co., Ltd Shanghai Branch (void of license)

Address: Tibet Middle Rd. No.18, 12th Floor, Room 1403-1405, Huangpu District, City of Shanghai, China

**3. Tahitian Noni Beverage (China) Co., Ltd Shanghai Office**

Address: Zhaojia Bang Rd. No.789, 12th Floor, Room A, City of Shanghai, China

It is found that this address was actually occupied by a biotech company called Fuent Biotechnology (Shanghai) Co., Ltd.



4. Tahitian Noni Beverage (China) Co., Ltd Jiangsu Branch (void of license)

Address: Changjiang Rd. No.188, 15th Floor, Room D, Xuanwu District, City of Nanjing, Jiangsu Province, China

**5. Tahitian Noni Beverage (China) Co., Ltd Zhejiang Branch (void of license)**

Address: Zhaohui Rd. No.203, Room 1001&1002, Xiacheng District, City of Hangzhou, Zhejiang Province



One possible outcome of Morinda doing business in locations that are not registered by the government is that the company runs into big risk of being added into the blacklist of untrustworthy direct selling companies, which could be detrimental to the company's operating business in China. According to an article published by [Caixin global](https://www.caixin.com/2019-02-28/100899999.html) in February 2019:

Chinese authorities suspended the registration and approval of direct selling amid a nationwide crackdown on wrongdoing in the health products market.

The Ministry of Commerce will establish a “blacklist” of untrustworthy direct selling companies and participants, ministry spokesperson Gao Feng said Thursday at a routine press conference.

.....

Gao said the Ministry of Commerce would conduct a thorough, nationwide sweep of the direct selling industry and will take actions against any illegal businesses.

The article stated that “the Chinese authorities suspended the registration and approval of direct selling amid a nationwide crackdown on wrongdoing in the health products market”, and this means Morinda and other direct-selling companies in China are not expected to increase their presence in cities/provinces any time soon.

Another recent case that comes to mind is Natural Health Trends Corp (NHTC)

How NBEV is linked to Natural Health Trends Corp (NHTC)

Natural Health Trends Corp (NHTC) is a NASDAQ listed company, with their main business involved in direct selling to consumers in China. Similar to Morinda, NHTC also operates through multi-level marketing arrangements.

NHTC saw its stock price plummet from over \$20 per share to less than \$8 per after negative news coverage in China.

On January 5, 2019, CCTV Channel 13 (China Central Television is the predominant state television broadcaster in China) aired an 18 minute [program](#) that alleged NHTC was a pyramid scheme in China. The program interviewed former NHTC members who subsequently lost money or saw their lives reach points of turmoil, including divorce, as a result.

The program also aired conversations where senior members of the company exaggerated the effects of the company’s products, including one called Noni Juice (with full name of Premium Noni Juice in English). According to the program, NHTC’s Noni Juice does not have domestic approval and registrations related to wellness foods.

An investor with the Twitter handle @unemon1, who runs a website at <http://www.unemon.com/>, covered the NHTC case excellently.

One thing investors may not have noticed is that Morinda’s primary product is also named Noni Juice (the full Chinese name is 大溪地诺丽牌大溪地诺丽加蓝莓果汁, which can be translated to Tahitian Noni Brand Tahitian Noni Plus Blueberry Juice). And both of the “Noni Juices” have the same Chinese characters of “诺丽果汁” as their product name. Why is this important? Because the CCTV program made the “诺丽果汁” very well known (in a bad way) during their NHTC coverage. And the fact that

Morinda's main product is sold in China under the same Chinese name (in short) as NHTC's product could make the customers/members hesitant or even unable to purchase or promote Noni juice, thus hurting Morinda's business prospects in China substantially. This is the exact scenario that played out in the case of NHTC.

Like most multi-level marketing businesses, Morinda heavily relies on the public perception of its product and its ability to recruit more people into the system.

We interviewed an industry expert who maintained close relationships with senior members of NHTC and our suspicions were confirmed: People are currently very skeptical of the product Noni juice and it has become increasingly harder to convince people to purchase or resell the product in China.

Additional Evidence that Morinda is operating illegally in China

People might argue that Morinda, as opposed to NHTC, obtained a direct selling license in China. However, having a direct-selling license does not prevent scrutiny and even a crack down from the regulators in China. For example, Chinese regulators have tried to crack down on at least 4 big-scale MLM companies **with direct-selling licenses**. Those companies are Hualin Group, Quanjian Group, Infinitus (China), and Tianshi Group.

We found the following [report](#) in China, published in 2018, that had strong allegations regarding Morinda's business conduct. Below are excerpts from this report, followed by their English translations (paraphrased) accordingly:

“.....大溪地却涉嫌跨区域直销、超范围销售产品的违法违规行为，同时其采用的奖金制度也涉嫌多层次计酬。”

.....Tahitian [Noni] is suspected to conduct direct-selling business and sell products in areas that are not allowed by the rules, and in the meantime the reward compensation system is suspected as calculating compensation in multiple levels.

“根据中国消费者报 2017 年 3 月 15 日的报道，“大溪地诺丽饮料(中国)有限公司在国内热土上辛勤耕耘直销业务，版图迅猛扩张，已在北京、山西、山东、辽宁、上海、浙江、江苏、福建、广东、重庆设立了分公司。”

According to the China Consumer News report on March 15, 2017, “Tahitian Noni Beverages (China) Co., Ltd has been developing its direct-selling business and expanding its geographic areas, and [it has] set up branches in Beijing, Shanxi Province, Shandong Province, Liaoning Province, Shanghai, Zhejiang Province, Jiangsu Province, Fujian Province, Guangdong Province, and Chongqing.”

“然而第一直销网查询商务部直销行业管理信息系统发现，大溪地诺丽的分支机构只有四个，分别是辽宁、山东、广东、重庆。而上述报道中，大溪地诺丽已经在十个省市设立了分公司。”

However, according to zhixiao001.com's findings from China's Ministry of Commerce direct-selling industry management information system, there are only 4 branches for Tahitian Noni, and they are Liaoning Province, Shandong Province, Guangdong Province, and Chongqing. But according to the China Consumer News report, Tahitian Noni has already set up branches in 10 provinces/cities.

“这明显违背了《直销管理条例》的规定：直销企业从事直销活动，必须在拟从事直销活动的省、自治区、直辖市设立负责该行政区域内直销业务的分支机构。商务部直销行业管理信息系统也明示，直销企业的直销地区以信息系统查询为准，未经审核公布的地区不得开展直销业务。”

This is an obvious violation to the <Direct-selling Management Rules>: Direct-selling companies that conduct direct-selling activities must set up the branches in the designated provinces, autonomous regions, or municipalities directly under the central government. The Ministry of Commerce direct-selling industry management information system also clearly shows that direct-selling companies' designated regions should be based on the information system search, and they shall not conduct direct-selling business in the regions that are not reviewed and approved [by the Ministry of Commerce].

.....

“公开资料显示，根据大溪地诺丽公司的奖金制度，二级特约经销商赚取佣金可至八层，一级特约经销商赚取佣金七层，特约经销商赚取佣金六层，优惠顾客赚取四层佣金，达到 40 箱的优惠顾客赚取五层佣金。每月超过一箱部分有 20%的佣金。此外，经销商还能获得其它红利、机动性进级奖金、批发商奖金等等。”

Public information shows that, according to Tahitian Noni's compensation system, second tier special distributor's earned commission could be 8 levels, and first tier special distributor's earned commission could be 7 levels, and special distributor's earned commission could be 6 levels, discounted customer could make 4-level commission, and discounted customer who reached 40 boxes could make 5-level commission. Every month over 1 box people could have 20% commission. In addition, distributors could also obtain other dividends, advancing bonuses, wholesale bonuses, etc.

“《直销管理条例》第二十四条规定，直销企业支付给直销员的报酬只能按照直销员本人直接向消费者销售产品的收入计算。如此看来，大溪地诺丽的佣金抽成最多的已经达到八层，显然不符合规定，涉嫌多层次计酬。”

No.24 of the <Direct-selling Management Rules> says that, the compensation that direct-selling companies pay to their sales people should be based on the revenues generated from the products sales people sell to the consumers. Whereas Tahitian Noni's commission reaches up to 8 levels, which is obviously not abiding by the rule and suspected as a multiple-level compensation calculation.

Morinda's European Operations just Closed Down

Another aspect of Morinda struck us as particular. When we looked into its European operations, we found a business that was in the process of winding down. We obtained the financial records for [Morinda UK Ltd](#). This entity consolidates all European operations of Morinda:

"Morinda Uk Limited ("the Company") is a wholly owned subsidiary of Morinda Inc., a US company. The Company served as a regional headquarters and principal company for Europe and also directly operates a foreign branch in Russia and all the results of this branch are included within these financial statements."

However, the company was in the process of **entirely winding down operations**.

"In July 2016, the Company's office in London was closed in connection with worldwide group restructuring efforts to reduce loss-making activities. **Effective December 1, 2016, the Company ceased its primary trading activities. The Company is now in the process of winding down its affairs** will continue to wind down during the course of 2017. It is expected that all final corporate matters will be formally resolved by September 30, 2018"

Remember that Morinda sold itself to NBEV in December 2018, just months after it was supposed to formally resolve all European corporate matters.

The European filings also paint the picture of a hugely unprofitable company, citing this as the reason why the company has to wind down. The financials confirm this, as Morinda UK lost over £1 million on slightly over £14 million of revenue in 2016. We actually did not find a single Morinda entity that showed positive net income. However, SEC filings disclose that Morinda reported over \$11m in net income in 2017. Something is clearly off.

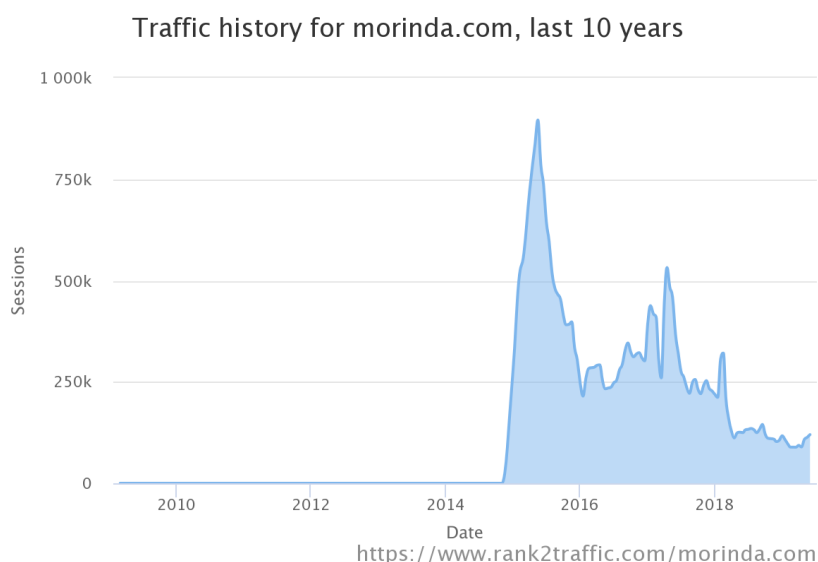
European filings strengthen our opinion that Morinda is not a thriving business, but is indeed falling apart on many fronts. This is contrary to news NBEV has issued about expanding in Europe:

On May 16th 2019 and on January 30th 2019 NBEV, issued a press releases announcing the roll out of a new Noni Collagen product. Amongst other things, NBEV mentions:

“Plans in place to rollout in Europe, Latin American, and other Asia Pacific markets throughout 2019”.

In light of the European filings we uncovered, we are highly suspicious of Morinda’s product roll-outs in Europe.

We also encourage readers to look into web traffic statistics, which overall paint the picture of a declining company. Morinda.com saw its daily traffic declining from a high of almost 900,000 to currently around 100,000.



Hidden Liabilities in the Morinda Transaction

Although CEO Brent Willis stated on the conference that Morinda had \$46m in cash and cash equivalents at the closing of the transaction by NBEV, he failed to mention the >\$50 million in contractual obligations owed to Morinda shareholders. These were disclosed much later in the [8K/A](#) filed on 03/01/2019.



Debt Obligation	Expected Term (Months)	Initial Acquisition Date Allocation			Interest Expense	
		Contractual Obligations	Discount	Net Carrying Value	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Contingent on financing event	5	\$ 25,000	\$ (644)	\$ 24,356	\$ ~ (1)	\$ 644 ⁽¹⁾
April 2019 EWC payment	4	1,000	(16)	984	~ (1)	16 ⁽¹⁾
July 2019 EWC payment	7	8,000	(283)	7,717	~ (1)	283 ⁽¹⁾
July 2020 EWC payment	19	6,428	(566)	5,862	204 ⁽³⁾	362 ⁽³⁾
Sub-total		40,428	(1,509)	38,919	204	1,305
Series D preferred stock earn-out	16	14,204	(1,070)	13,134	268 ⁽³⁾	802 ⁽³⁾
Total		\$ 54,632	\$ (2,579)	\$ 52,053	\$ 472	\$ 2,107

The \$25m payment due upon a financing event is noteworthy. NBEV notes that:

“The Company believes it is probable that this event will occur in the second quarter of 2019.”

We view this as a lack of transparency towards NBEV shareholders when a big cash balance is discussed on the conference call, but big liability items are simply disregarded.

Another shady aspect that increases profits to Morinda insiders is an old Executive Compensation plan. This unfunded plan was established by Morinda in 2009 and all “financial performance targets” under the plan were achieved as of December 31, 2018, and a long-term liability of \$4.1 million was acquired with Morinda. After the executives retire, the deferred compensation obligation is payable over a period up to 20 years.

Remember that the biggest portion (about half) of Morinda’s cash is supposedly sitting in China, and we have previously laid out why we believe Morinda’s China financials are not to be trusted.

Investors beware! In our experience, liabilities tend to almost always be real, but not the assets.

Are Auditors just bad or Complicit?

It has been repeatedly noted that issues relating to information access remain a [key hurdle](#) for outside investors in China. Top 10 auditors, all the way down to lower quality auditors, continue to be duped by Chinese companies. Still, it’s hard for us to believe that auditors are unable to detect some of the type of fraud that firms like ours can expertly identify. We can only assume that they just don’t care.

You might be wondering who signed off on all these fake financials. Utah based Deloitte & Touche LLP verified the financial statements of Morinda, Inc. and NBEV’s auditor has been Accell Audit & Compliance, P.A. since 2016.

Accell Audit & Compliance is a small Florida based firm with only 8 clients. Their [PCOAB report](#) outlines significant deficiencies as the firm-issued reports without yet having obtained sufficient evidence to

support their opinions. Deloitte seems to find itself on the wrong end of many international scandals this year: for example, the [Malaysia](#) fine the South China Morning Post reported, and the [\\$8.0 million fine](#) Deloitte had to pay in Brazil.

It is interesting to find big divergences between Chinese and US filings, but this challenge is not new to auditors. It has been repeatedly noted that issues relating to information access remains a [key hurdle](#) for outside investors in China. We have not found indications of outright wrongdoing from the auditors. Frankly, we simply believe they are not in a position to detect this kind of fraud. For a fraudulent company, it just seems easiest to hide fake financials in China; For example, a \$20m cash balance that does not exist...

A few Words regarding the CBD Hype

Marley deal is terrible

NBEV's CBD related licensing deal with the Marley brand has terribly economics for NBEV. NBEV ends up paying 50% of revenue for the licensing deal, yet our research indicates that standard rates for this industry are around 25%. It will be hard to turn a profit on such unfavorable economics. However, on June 20th 2019 NBEV announced that the Marley licensing deal would be extended globally.

CBD Products in the News

- NBEV announced that they will be selling CBD beverages in Colorado, Oregon, Washington, and Michigan starting in March 2019. On Fox Business News [CEO Brent Willis said](#) that people can already buy these CBD drinks in certain stores and soon in the 4 states.
- Their [press release](#) from January 2019 claims "pharmaceutical grade CBD".
- Is CBD in food legal? In short, probably not. After the Farm bill was passed, the FDA posted a memo that said putting CBD in food is not legal, if moved intrastate. It is unclear if the FDA is allowing CBD in food within the cannabis legal states.
- We note that under the [FD&C Act](#), it's illegal to introduce drug ingredients like CBD into food. Our [research indicates](#) that Michigan (one of NBEV's target states), will default to FDA rules. California [also defaults](#) to FDA rules (no CBD in food)
- Bruce Linton, the CEO of Canopy Growth acknowledged in a recent [interview on CNBC's Mad Money](#) that the FDA has been clear that food including CBD it is not ready for human consumption.

We also believe that investors might be vastly overestimating near term potential from CBD infused drinks. Through channel checks, we have found that currently the largest, most established US distributor of sparkling CBD beverages (in 16 states), Sprig, is making <\$15 million in revenue. In light of New Age's 50/50 profit share on Marley infused products, we believe there will be minimal impact to GP even if NBEV matches sales of the current market leader, Sprig.

Highly Promotional CEO with a History of Business Failures

CEO Brent Willis had allegations of being highly promotional, and has been involved in multiple public companies that failed. [Some](#) have even considered them to be pump-and-dump schemes.

Willis' track record for running public companies has not been impressive prior to NBEV. He served as Executive Chairman the IPO of XFit Brands (XFITB) during its decline from \$1.10 per share to currently less than 1 cent per share.

Even more spectacular was the failure of Electronics Cigarettes International Group, Ltd. (currently ECIGQ). Brent Willis was CEO from 2013 until 2015, and in 2017 the company finally filed for bankruptcy.

Brent Willis is also currently Chief Operating Officer of Voyageur Minerals, a TSX traded exploration stage mining company that currently sports a stock price of CAD 0.06.

We see a pattern of Brent Willis getting involved in the latest hot business ventures that seem to sell on Wall Street (E-Cigarettes, CBD Drinks) that temporarily reach a high market capitalization. But the ultimate outcome seems always the same for shareholders: A near complete loss of their capital.

Executive Compensation and Insider Selling is Accelerating

NBEV had some juicy salary increases beginning 2019. Brent Willis' base salary more than doubled from \$312,500 to \$650,000. CFO Gregory Gould also saw his base salary double to \$500,000 per year.

Insiders have also been selling their shares. Form 4 filings from April 2019 show Brent Willis locked in over \$1.6 million by disposing of a 300,000 NBEV shares. This has been the biggest insider sale for years. Did Brent Willis start to realize that something is substantially wrong with the Morinda transaction?

Dilution & Cash Burning Machine

NBEV's transaction spree has been largely fueled by continuous equity raises. The company more than doubled its share count in 2018 from 35m shares to over currently over 75m shares.

This is not the end of it, as NBEV has filed a [new registration](#) statement to sell an additional 18m shares.

A key problem we see with this strategy is that NBEV's roll-up has resulted in a company that is notoriously unprofitable and does not generate cash flow. In other words, NBEV is reliant on equity raises to keep the business afloat.



We uncovered what we believe may have been fraud in NBEV's biggest transaction to date. This does not only warrant scrutiny on Morinda itself, but also on NBEV's overall strategy. We believe that once investors and stakeholders start to understand the truth about Morinda, NBEV will have a harder time approaching the public market for equity investments.

The company conducted numerous equity financings in 2018. According to its 2018 [10K](#), it had 4 equity raises throughout 2018:

	Number of Shares	Gross Proceeds	Average Price
April 2018 Offering	2,560	\$4,480	\$1.75
August 2018 Offering	9,200	\$11,776	\$1.28
ATM Offering - September 2018	8,089	\$37,533	\$4.64
November 2018 Offering	14,835	\$51,922	\$3.50
Total	34,684	\$105,711	\$3.05

It seems like the majority of the money raised, was used to fund the Morinda transaction.

However, it appears that there is no sign of stopping on the equity financing front, even after Morinda. On April 30, 2019, NBEV [entered](#) into a sales agreement with Roth Capital Partners, LLC, to sell up to \$100m worth of shares of the company's common stock for an "at the market offering" (ATM offering). [Wikipedia explains:](#)

An at-the-market (ATM) offering is a type of follow-on offering of stock utilized by publicly traded companies in order to raise capital over time. In an ATM offering, exchange-listed companies incrementally sell newly issued shares into the secondary trading market through a designated broker-dealer at prevailing market prices.

NBEV completed an ATM offering in 2018, when the stock was offered at an average price of about \$4.64 per share, for an aggregate of about \$37.5 million. However, since the offering price is not fixed on ATM offering, and if NBEV is really fleeced in the Morinda transaction and will not do well in the coming future as we predict, the ATM offering could cause much more dilution than investors anticipated. For example, at current price of \$4.50 a share, a \$100m offering at this price would result in 22.2 million new shares, but if the stock price is \$3.50, then the newly issued shares would amount to 28.5 million. It would be 50 million shares at an average price of \$2.00, and 66.7 million shares at an average price of \$1.50.

	\$100 million ATM common stock offering				
Average issuing price	@\$4.50	@\$3.50	@\$2.50	@\$2.00	@\$1.50
Newly issued shares (in MN)	22.2	28.6	40.0	50.0	66.7
Potential dilution to shareholders ¹	29.5%	37.9%	53.1%	66.3%	88.4%

note 1: dilution was calculated based on 75.393 million common stocks outstanding as of May 6, 2019 according to the company's most recent [10Q](#)

Conclusion

We have laid out our case for why we believe Morinda's financials that were presented to the SEC and NBEV shareholders can simply not be relied upon. This report once again proves that the times of the "China Hustle" are long from over. The opaqueness and issues relating to information access still leave plenty of room to defraud US investors. Therefore, it has been our mantra that enhanced scrutiny is warranted when dealing with companies that conduct a substantial part of their operations in China. We can only conclude that NBEV management seemingly failed to conduct the necessary due diligence.

We believe investors and other stakeholders will start to share our negative opinion about Morinda and rightfully lose faith in NBEV's roll-up strategy. Accounting issues, financial restatements, or worse could lay ahead. A key problem for NBEV is that the company needs equity raises to keep its current business

afloat, and might have to conduct these at inopportune times under toxic terms. We set our intermediate price target at \$2.00 but believe that in the long run, NBEV shareholders will ultimately meet the same fate as the investors in Brent Willis' previous public companies: A near total loss of their capital.

Appendix 1: Approved 4 Branches of Tahitian Noni Beverage (China) Co., Ltd. on China Ministry of Commerce Website

1. City of Chongqing Branch
2. Liaoning Province Branch
3. Guangdong Province Branch
4. Shandong Province Branch

大溪地诺丽饮料（中国）有限公司分支机构信息列表

	分支机构名称	分支机构地址	负责人姓名	负责人联系电话	审批日期
1	大溪地诺丽饮料（中国）有限公司重庆分公司	重庆市渝北区新南路166号2幢1单元10-6、10-7	马春林	13983744334	2015-06-02
2	大溪地诺丽饮料（中国）有限公司辽宁分公司	青年大街185-2号19层8单元	马春林	18640555918	2017-08-17
3	大溪地诺丽饮料（中国）有限公司广东分公司	中山六路232号705、706房	马春林	18650303037	2017-08-17
4	大溪地诺丽饮料（中国）有限公司山东分公司	泉城路318号1018室	马春林	13061525550	2017-08-17

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source: screenshot from China Ministry of Commerce [website](#)

Appendix 2: Detailed 44 Registered Service Locations of Tahitian Noni Beverage (China) Co., Ltd. on China Ministry of Commerce Website

服务网点名称 (Service Location Names)	网点地址 (Address)	备案日期 (Registration Date)
大溪地诺丽饮料（中国）有限公司辽宁分公司 和平区服务网点	沈阳市和平区南京南街 212 号	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 沈河区服务网点	沈阳市沈河区北站路 146 号(1-15-4)	12/5/2017

大溪地诺丽饮料（中国）有限公司辽宁分公司 大东区服务网点	沈阳市大东区广宜街 21 号(501)	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 皇姑区服务网点	沈阳市皇姑区崇山东路 35-2 号 202 室	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 铁西区服务网点	沈阳市铁西区建设东路 35 号(1016)	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 苏家屯区服务网点	沈阳市苏家屯区枫杨路 78 号	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 浑南区服务网点	沈阳市浑南新区金卡路 16 号(B642 门)	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 沈北新区服务网点	沈阳市沈北新区蒲昌路 22 号(3038 门)	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 于洪区服务网点	沈阳市于洪区黄海路 20-1 号	12/5/2017
大溪地诺丽饮料（中国）有限公司辽宁分公司 辽中区服务网点	沈阳市沈阳市辽中县茨榆坨镇华泰路 7-1 号（网点 13 号）	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 历下区服务网点	山东省济南市历下区泉城路 318 号丰利大厦 10 楼 1018 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 市中区服务网点	山东省济南市市中区经四路 288 号恒昌大厦 15 楼 1515 室(A1-A2)	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 槐荫区服务网点	山东省济南市槐荫区经七路 843 号泰山大厦 21-C01 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 天桥区服务网点	山东省济南市天桥区无影山中路 104 号天建写字楼 603 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 历城区服务网点	山东省济南市历城区华龙路 2 号科技城 701 室	12/5/2017

大溪地诺丽饮料（中国）有限公司山东分公司 长清区服务网点	山东省济南市长清区龙泉街大柿子园社 区 1338 号龙泉大厦 1-1009 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 环翠区服务网点	山东省威海市环翠区新威路 17-6 号迪 尚大厦 1305-1306 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 文登区服务网点	山东省威海市文登区天福办峰山路 10 号文登嘉年华商务酒店 411 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 荣成市服务网点	山东省荣成市沿河南街中信大厦东时代 融城 505 室	12/5/2017
大溪地诺丽饮料（中国）有限公司山东分公司 乳山市服务网点	山东省乳山市胜利街 87 号莱茵豪生酒 店 609 室	12/5/2017
大溪地诺丽饮料（中国）有限公司广东分公司 荔湾区服务网点	广州市荔湾区中山八路石路基 36、38 号八楼 809	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 越秀区服务网点	广州市越秀区中山六路 236 号 701 房	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 海珠区服务网点	广州市海珠区江南大道中路 82 号 1213	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 天河区服务网点	广州市天河区珠江西路 8 号 1501 自编 1502	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 白云区服务网点	广州市白云区黄边北路 146 号汇金大厦 3A18	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 黄埔区服务网点	广州市黄埔区黄埔东路 266 号 1003 房	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 番禺区服务网点	广州市番禺区市桥镇长堤西路 250 号铺	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 花都区服务网点	广州市花都区新华街公益大道 27 号八 层 024	7/16/2018

大溪地诺丽饮料（中国）有限公司广东分公司 南沙区服务网点	广州市南沙区珠电路 4 号 1018 房	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 从化区服务网点	广州市从化区江浦街金棕榈大街 1 号 110 铺	7/16/2018
大溪地诺丽饮料（中国）有限公司广东分公司 增城区服务网点	广州市增城区新塘镇东坑三横中路 1 号 2 幢 907 号	7/16/2018
重庆市渝中区服务网点	重庆市渝中区大坪正街 160 号 4 栋 32-9	6/24/2015
重庆市大渡口区服务网点	重庆市大渡口区九宫庙街道钢花路 799 号附 1 号 42 号	6/24/2015
重庆市江北区服务网点	重庆市江北区盘溪路 21 号附 9 号 2-7	6/24/2015
重庆市沙坪坝区服务网点	重庆市沙坪坝区艺德路 45 号 27-14	6/24/2015
重庆市九龙坡区服务网点	重庆市九龙坡区石杨路 15 号 12-14 号	6/24/2015
重庆市南岸区服务网点	重庆市南岸区江南大道 8 号 3 栋 15-17 号	6/24/2015
重庆市北碚区服务网点	重庆市北碚区双元大道 250 号	6/24/2015
重庆市渝北区服务网点	重庆市渝北区新南路 2 幢 1 单元 10-6	6/24/2015
重庆市巴南区服务网点	重庆市巴南区渝南大道 79 号 2 栋 1 单 元负 2-1	6/24/2015
重庆市长寿区服务网点	重庆市长寿区凤城金山街 19 号 1-4#	6/24/2015
重庆市合川区服务网点	重庆市合川区南办处南津街 499 号 14 幢 28-6	6/24/2015
重庆市永川区服务网点	重庆市永川区渝西大道西段 481 号附 44 号	6/24/2015
重庆市荣昌县服务网点	重庆市荣昌县昌州街道东湖二支路 21 号	6/24/2015

source: China Ministry of Commerce [website](#)

Appendix 3: List of Tahitian Noni Beverage (China) Co., Ltd's subsidiaries/branches and their Registration Status per China Ministry of Commerce Website

List of Tahitian Noni Beverage (China) Co., Ltd ("Tahitian Noni") Subsidiaries/Branches	Translated Company Names	Registered/Approved according to China Ministry of Commerce?
大溪地诺丽饮料(中国)有限公司福建分公司	Tahitian Noni Fujian Province Branch	No
大溪地诺丽饮料(中国)有限公司上海静安分公司	Tahitian Noni Shanghai Jing'an Branch	No
大溪地诺丽饮料(中国)有限公司上海分公司	Tahitian Noni Shanghai Branch	No
大溪地诺丽饮料(中国)有限公司上海办事处	Tahitian Noni Shanghai Office	No
大溪地诺丽饮料(中国)有限公司山西分公司	Tahitian Noni Shanxi Province Branch	No
大溪地诺丽饮料(中国)有限公司江苏分公司	Tahitian Noni Jiangsu Province Branch	No
大溪地诺丽饮料(中国)有限公司浙江分公司	Tahitian Noni Zhejiang Province Branch	No
大溪地诺丽饮料(中国)有限公司北京分公司	Tahitian Noni Beijing Branch	No
大溪地诺丽饮料(中国)有限公司北京朝阳分公司	Tahitian Noni Beijing Chaoyang Branch	No
大溪地诺丽饮料(中国)有限公司万盛工厂	Tahitian Noni Wansheng Factory	Company De-registered per SAIC
大溪地诺丽饮料(中国)有限公司广州工厂	Tahitian Noni Guangzhou Factory	Company De-registered per SAIC
大溪地诺丽饮料(中国)有限公司荣昌工厂	Tahitian Noni Rongchang Factory	Yes
大溪地诺丽饮料(中国)有限公司重庆分公司	Tahitian Noni Chongqing Branch	Yes
大溪地诺丽饮料(中国)有限公司辽宁分公司	Tahitian Noni Liaoning Province Branch	Yes
大溪地诺丽饮料(中国)有限公司广东分公司	Tahitian Noni Guangdong Province Branch	Yes

大溪地诺丽饮料(中国)有限公司威海分公司	Tahitian Noni Weihai Branch	Yes
大溪地诺丽饮料(中国)有限公司山东分公司	Tahitian Noni Shandong Province Branch	Yes

source: [Qichacha](#) and China Ministry of Commerce website