

Did Herbalife Ship Millions Of Canisters Of Formula 1 To Lebanon?

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by: Christine Richard

Summary

- In 2014, according to third-party data companies, Herbalife shipped product into Lebanon with a weight equivalent to 3.6 million canisters of Formula 1.
- Herbalife says the data can't be relied upon.
- But a year after the company was alerted to the issue, the data available to the public remains unchanged. Why?

One thing investors like about embattled multi-level marketer Herbalife Ltd. (NYSE:HLF) is that it has lots of overseas business. Yet, when a company conducts so much of its business in far-flung, out-of-reach locations, it can be surprisingly hard to figure out what's really going on.

In March 2014, according to publicly available U.S. export data, Herbalife began to send large amounts of products to Lebanon, a tiny country in a war-torn region that has never, to my knowledge, merited a public mention by Herbalife management.

Here's the summary of Herbalife's largest export markets based on data from January 2010 to October 2015, according to Zepol, an independent compiler of North American import and export data.



Super Search:

Trending Measure:

-- ALL -- - Custom Selection for: herbalife(*)
Shipments

The Top 25 items are displayed out of a total of 41 items. (Shipments)

Destination	2010	2011	2012	2013	2014	2015	TOTAL
Indonesia (Asia)	63	109	149	175	146	206	848
Netherlands (Europe)	175	83	9	119	67	113	566
Venezuela (South America)	64	2	117	195	87	34	499
Colombia (South America)	29	64	60	136	150	11	450
Vietnam (Asia)	19	75	74	88	83	32	371
Peru (South America)	17	32	36	46	110	29	270
Lebanon (Asia)	0	0	0	0	217	28	245
Malaysia (Asia)	30	52	69	44	21	12	228
Philippines (Asia)	24	28	35	34	60	43	224
Korea, South (Asia)	2	4	10	0	71	107	194
El Salvador (Central America)	11	24	33	44	56	16	184
Bolivia (South America)	7	0	17	67	68	16	175
Ecuador (South America)	0	0	21	54	76	16	167
Hong Kong (Asia)	11	12	22	37	25	32	139
Argentina (South America)	0	0	19	54	59	6	138
Costa Rica (Central America)	17	28	24	21	26	1	117
Chile (South America)	9	16	14	19	46	11	115
Panama (Central America)	13	13	5	18	32	9	90
Australia (Australia, New Zealand and Oceania)	0	2	22	22	14	24	84
Taiwan (Asia)	4	2	2	0	20	49	77
Singapore (Asia)	11	16	14	9	9	6	65
Uruguay (South America)	0	0	2	15	22	6	45
Blank (Blank)	0	0	0	0	37	2	39
Brazil (South America)	0	0	2	17	12	4	35
Thailand (Asia)	1	1	0	0	0	27	29
TOTAL	507	563	756	1,214	1,514	840	5,394

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According to Zepol, 217 Lebanon-bound shipments, containing 2,130 metric tons of products, were routed in 2014 through the Netherlands, where Herbalife has a distribution center.¹ **That's the equivalent in weight to 3.6 million canisters of Formula 1, about one canister for every adult in the country.**²

These shipments, which began on March 26, 2014, and continued for almost a year, at the rate of approximately one shipment per business day, made Lebanon Herbalife's largest export market for all of 2014, according to the data.³ The 2014 and early 2015 Lebanon shipments, which reached 245, helped to offset the impact of a more than 50% decline in shipments to Venezuela.

Querying Zepol

In five years of researching Herbalife, I have never heard management mention Lebanon.⁴ So in March 2015, I emailed Zepol to ask about the data's accuracy. A Zepol representative emailed me back:

"Either Herbalife is exporting to Lebanon or Herbalife and/or Customs is making an error within the shipping documents."

A review of the Zepol data showed the following pattern: Herbalife products would be shipped from various U.S. ports to Rotterdam in the Netherlands where they were received in Venray (the location of a major Herbalife distribution center), but the products were designated for final shipment to Lebanon. That suggests the products were stored in the bonded warehouse section of Herbalife's facility - never officially entering the European Union for customs purposes - and then later moved to their final destination in the Middle East.

The Zepol representative said he would look into it further. In the meantime, I checked with one of Zepol's competitors, Panjiva, Inc., and they had the same Lebanon-bound shipments in their data.

Who is Wellness S.A.R.L.?

It seemed unlikely that Herbalife actually sold millions of canisters of Formula 1 in Lebanon in 2014, but I figured it was worth asking.

I called the phone number for Lebanon listed on Herbalife's worldwide address list and reached Wellness S.A.R.L. in Beirut. The office manager told me that Wellness S.A.R.L. is an independent company whose sole business is to import Herbalife products into Lebanon. The office manager refused to provide further details, including the name of the company's owner or the level of shipments it was receiving or whom I might speak with to get more information.

A search for public information about Wellness S.A.R.L. turned up virtually nothing.

In July 2015, I obtained registration information for the company through a Lebanese law firm. The registration documents list three partners for Wellness S.A.R.L.: Total Serve Management Ltd., Total Serve Consultants Ltd. and a Lebanese lawyer.⁵ The Total Serve entities, which are based in Cyprus, own 95% of Wellness S.A.R.L., according to the registration.

Who is Total Serve?

Total Serve's website says it provides accounting, tax and trust services.⁶ It appears from its website that Total Serve's services include putting its name on registration documents in place of a company's actual owners. So if Herbalife actually did ship millions of canisters of Formula 1 into Lebanon, that product went into a black hole.

Back to Zepol

In June 2015, I contacted the Zepol representative again. He assured me that Zepol had thoroughly researched the issue and confirmed with Customs that the information Zepol was receiving reflected the information the government had received. The representative mentioned that a few other people had asked about the data, including a reporter, and later Herbalife had contacted Zepol to sort out the problem.

These conversations began early in 2015 and ended with Herbalife insisting that the Lebanon errors were being introduced by a third party, not by the company. Zepol assured the company its data reflected the government's data and suggested Herbalife take up the issue with Customs.

A closer look at the shipments shows that Lebanon as a final destination abruptly stopped appearing in third-party data in late January. Later there was a trickle of transactions and then none after June 2015. Whoever was introducing these errors into Herbalife's customs data seems to have figured out how to fix the problem - at least prospectively.

So did someone mistakenly enter "Lebanon" as the final destination for 245 shipments of Herbalife products that were shipped to the Netherlands? If so, how, and why was it not corrected?

Kooper's Customs Compliance

Herbalife's warehouse in the Netherlands is a substantial operation and has its own customs compliance executive, so I decided to take my questions directly to him.

Willem Kooper's LinkedIn profile describes him as holding the position of Herbalife's "Senior Manager Customs EMEA" [Europe, Middle East, Africa] for the last 14 years. It also says he is the owner of a company called Kooper's Customs Compliance.

I figured if anyone knew the story of how hundreds of Lebanon-bound shipments were erroneously recorded on Herbalife's shipping manifests, it would be Kooper. But despite repeated calls to Herbalife's Venray offices and repeated messages left for Kooper, I never heard back from him.

Vice President of Global Corporate Affairs

In the fall of 2015, I called Herbalife Executive Vice President of Global Corporate Affairs Alan Hoffman. Mr. Hoffman said the third-party data could not be relied upon; it contained mistakes and Herbalife had been in contact with U.S. Customs regarding those mistakes. If I wanted further clarification, I could:

1. Take my questions to the Commissioner of U.S. Customs and Border Protection - Gil Kerlikowske. Hoffman said he knew the Commissioner well (Mr. Hoffman was Deputy Assistant to President Obama and Deputy Chief of Staff to Vice President Biden before joining Herbalife) and that the Commissioner would be happy to sort out the whole issue for me.
2. Put my questions in writing, on Orion Research letterhead, and mail them to Herbalife.

When I called U.S. Customs and Border Protection, I was informed that employees, including the Commissioner, are prohibited from discussing company information with members of the public. My call was not put through to the Commissioner.

So I followed up on Mr. Hoffman's second suggestion. I wrote him a letter, asking if the shipments had been made and, if not, why corrections to the presumably erroneous data had not been made available to the public, and mailed it to Los Angeles.

Back to Zepol Again

In the meantime, I went back to Zepol (which in the intervening months had been bought by Datamyne, a competing data service). The now-Datamyne representative informed me that no corrected information had been made available to Zepol or Datamyne regarding Herbalife's data, so the data continued to reflect 245 Lebanon-bound shipments for 2014 and 2015.

He said that after his employer merged with Datamyne, he was able to confirm that Datamyne's information contained the same information regarding Herbalife and Lebanon. That makes three companies with the same supposedly inaccurate data: Zepol, Panjiva and Datamyne.

Two Boxes

At the end of January 2016, I got my response from Mr. Hoffman: two boxes and a letter.

Here's the letter:

Dear Christine:

Thank you for your inquiry about our shipments. I appreciate the interest in Herbalife and have included some of our products so you can try what millions of people around the world experience every day.

As we discussed on the telephone, Herbalife has not sent the shipments you reference in your letter and I have had several conversations with the appropriate government official about this situation. As you can imagine, US Customs and Border Patrol and the Department of Homeland Security have many pressing matters before them.

I hope you enjoy the products.

Very truly yours,

A handwritten signature in black ink, appearing to be 'Alan Hoffman', written over a horizontal line.

Alan Hoffman

So, according to Mr. Hoffman, Herbalife did not make the shipments to Lebanon, and the issue has been discussed with the government.

But if these really were 245 innocent mistakes, later corrected with documentary proof presented to the government, why hasn't the third-party data been corrected to reflect the reality? Did someone else make those 245 shipments on Herbalife's behalf?

Any correction of the government data should have flowed through to third-party data providers, giving the public an accurate record of Herbalife's overseas shipments. For corrections to remain out of the public eye, Herbalife would need to seek confidential treatment from U.S. Customs and Border Protection for its shipping manifests.

In the two boxes from Mr. Hoffman? Formula 1, protein bars, Cell Activators, vitamins and just about the entire skin care line.

But no answers to the naaaina questions.

One Last Call

At the risk of wearing out my welcome, I called the patient Datamyne representative back one more time this week to see if the company had been alerted to the need to make any corrections to its Herbalife data.

Sixteen months and counting: No corrections; 245 shipments to Lebanon are still part of the data set for 2014 and 2015, the representative told me.

So we're left with this: Since at least January 2015, Herbalife has been aware that information available to the public (including any analysts and investors seeking to conduct due diligence on the company's vast international business) indicates that in 2014 alone it sent more than 200 shipments to Lebanon, a country for which Herbalife has never disclosed any significant sales.

The representative explained to me that corrections are common. In fact, Datamyne receives daily updates of Customs data and every file contains numerous corrections of previous data.

"It would seem Herbalife could end this quickly by just showing how the error got into their system," he told me.

I'd said I'd call him back next week.

1. Orion Research Herbalife (Trade IQ Export).xls

2. Assumes that all product shipped is Formula 1 in the 550 gram size and that each canister is shipped with an additional 50 grams in packaging material for a total of 600 grams per canister. Uses World Bank estimate that there are 4.6 million legal residents of Lebanon and assumes 25% of Lebanon's citizens are less than 18 years of age. That means there are 3.45 million adult residents in the country.

3. The data are a compilation of all exports by Herbalife or its subsidiaries from the U.S. The results were ranked based on the identified final destination for the shipment. The data used includes ocean-bound shipments only and therefore excludes most exports to Mexico.

4. Herbalife officially opened for business in Lebanon in September 2011.(Source)

5. According to the registration documents, three partners are needed to create an LLC in Lebanon.

6. (Source)

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

Business relationship disclosure: Christine Richard is the President of Orion Research LLC, which does investigative research for investors. Pershing Square Capital Management, which has a short position on Herbalife, is a client of Orion Research LLC.