

Activist Shorts Research

A look back on the best calls of 2014 and campaigns to watch in 2015



It's been a big year for activist shorts.

Without the massive gains the market found in 2013, short-sellers saw some previously elusive returns.

The quantity and quality of short calls has increased.

And best of all, this year brought Activist Shorts Research, the first and only activist short-seller database.

We bring you our:

2014 Fraud Call of the Year,

2014 Valuation Call of the Year,

2014 Short-Seller of the Year,

Ten campaigns to watch closely in 2015, and

Top picks from the short-sellers themselves.

AWARDS

2014 Fraud Call of the Year: Let's Gowex

Short-seller: Gotham City Research

Gotham City Research is not the first to accuse a company of fraud. It's not the first research outfit to devote months to research or to do in-the-field work across multiple continents. It's not the first to topple a billion dollar company. It's not even the first to do so relatively quickly. But it's completely unprecedented for a mostly anonymous short-seller to collect an admission of guilt and resignation from a CEO, along with a declaration of bankruptcy, in just five measly days. Carson Block has to be at least a little bit jealous.

On Tuesday, July 1, Gotham City Research put out a 93-page report saying that Spain-based telecommunications company Let's Gowex SA was making up more than 90% of its revenue. Just a few hours after the report came out, Let's Gowex called it "defamatory," later promising to hire a prestigious audit firm to defend itself. That was until Sunday morning, just five days later, when founder and CEO Jenaro García Martín confessed to fabricating the company's accounts for at least the past four years. What little remains of the company is currently languishing in the courts, the halted stock is assuredly worthless, and Martín, who is none too happy with Gotham, is facing charges.

An allegation of massive fraud is a serious charge, but even the most successful short-sellers have to spend months or even years waiting for vindication, if that day ever comes. Nobody is this lucky. For that, we award Gotham City Research our 2014 Fraud Call of the Year.

Ticker: GOW

Exchange: Madrid

Campaign Announced: 7-1-2014

Market Cap at Announce:
\$2.0 billion

Market Cap Today: Bankrupt

Price at Announce: €19.91

Price Today: €7.92 before halting

Return to company since
announcement: ~100%

2014 Valuation Call of the Year: Plug Power Short-seller: Citron Research

Ticker: PLUG

Exchange: Nasdaq

Campaign Announced: 3-11-2014

Market Cap at Announce:
\$1.1 billion

Market Cap Today: \$0.52 billion

Price at Announce: \$10.31

Price Today: \$2.98

Return to company since
announcement: -71%

Plug Power manufactures fuel cells for fork lifts. After languishing under \$1 for most of 2013, PLUG's stock reached \$11.72 on March 10, 2014, its highest price since 2009, thanks to a craze for fuel cell companies. On March 11, Citron Research called the top. Since Citron described PLUG as a "casino stock" with a management that had offered a "string of broken promises," the stock has dropped over 70% and, after a secondary offering in April, the once billion dollar company's market cap has halved.

Citron's short piece was soon followed by similar calls from Sahm Adrangi's Kerrisdale Capital, Anthony Bozza's Lakewood Capital, and Richard Pearson. For being the first major activist short-seller to pull the plug on PLUG, and for managing to call the exact top of the stock, we award Citron Research our 2014 Valuation Call of the Year.

2014 Short-Seller of the Year: Gotham City Research Putting Fraud on the Map

The world of successful activist short-sellers is small. Smaller still are the short-sellers that command attention whenever they speak. Jim Chanos. Bill Ackman. Carson Block. If his success this year is any indication, there may be a new name to add to the list.

Daniel Yu is Gotham City Research's man-behind-the-curtain, though there's little known about him or his team, if he has one. Gotham City started making public short calls back in 2013, but didn't capture much attention until it targeted Quindell, a UK-based technology company that's fallen over 90% since Gotham's April announcement. On April 23, The Financial Times wondered, "Who is Gotham City Research?" and journalists have been asking ever since, especially after Gotham pushed Let's Gowex into bankruptcy in July. Blucora, the first call it made this year back in February, has dropped 41% after Gotham City said it was artificially boosting its search traffic.

Yu isn't joking around though. Most short-sellers focus on a making a mix of fraud allegations and valuation predictions at companies both large and small. But Gotham City Research has focused only on fraud and mostly on bigger targets, with Quindell and Let's Gowex larger than 78% of activist short campaigns announced in 2014.

Gotham City has had remarkably quick success so far in a field where Ackman has been trying to topple Herbalife for two years and Chanos regularly talks about the same short bets for years on end. For this and, we expect, much more to come, we name Gotham City Research our 2014 Short-Seller of the Year.

Founder: Daniel Yu

Founded: 2013

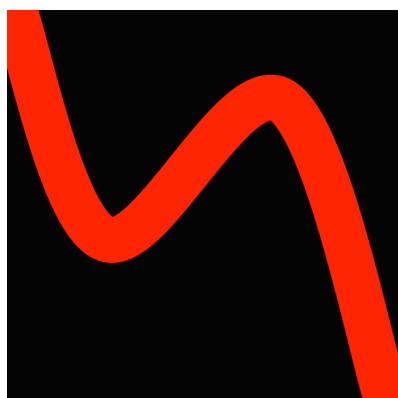
Average Campaign Return: -63%

Average Market Cap of Targeted Company: \$1.8 billion

Number of Companies Targeted: 5, so far

Favorite Superhero: Batman (we assume)

2015 CAMPAIGNS TO WATCH



Keep a close eye on these companies in 2015:

Ticker: GSAT

Exchange: NYSE

Short-seller: Kerrisdale Capital

Campaign Announced: 10-6-2014

Market Cap at Announce:
\$2.8 billion

Market Cap Today: \$2.3 billion

Price at Announce: \$3.01

Price Today: \$2.68

Return to company since
announcement: -11%

1. **Globalstar**: It had a live, three-hour presentation at an auditorium in midtown Manhattan. It's been a very public battle between a short-seller and the company he targeted. It even includes a "factsabout[company].com" website, detailing every latest conference call and report on what's wrong with the company.

You'd be forgiven for thinking of Bill Ackman and Herbalife. Instead, it's Sahm Adrangi, head of Kerrisdale Capital, and Globalstar, a \$2+ billion company making a big bet on spectrum. Globalstar says WiFi today is getting overcrowded and plenty of businesses would pay to be certain they have access to the fastest internet speeds. Kerrisdale says WiFi isn't broken and no one will pay Globalstar to use their spectrum, making the company "worthless."

And that's just the tip of the iceberg. Grenades have been lobbed back and forth, technical experts brought out, and battling letters sent to the FCC. The stock is down almost 30% from when Kerrisdale first announced it had an upcoming presentation (without actually disclosing the target), or down 11% since the short officially became public.

Short-sellers John Hempton of Bronte Capital and Richard Pearson have joined the fray, too. With the GSAT short still sitting as Kerrisdale's largest short position and potential action from the FCC coming in 2015, this is not the end of this battle.

Ticker: AME

Exchange: NYSE

Short-seller:

Spruce Point Capital Management

Campaign Announced:

11-13-2014

Market Cap at Announce:

\$12.8 billion

Market Cap Today: \$12.9 billion

Price at Announce: \$52.22

Price Today: \$52.62

Return to company since

announcement: +1%

2. **Ametek**: Spruce Point Capital Management called Ametek its “largest short idea ever” before releasing its 140-page (or 890-page with exhibits) presentation on November 13, 2014. Run by Ben Axler, Spruce Point has seen an average 40% drop on its 11 public short calls since 2010, which doesn't include Axler's also-successful research for Prescience Point Research Group.

In his extensive report, Axler said Ametek had overstated its margins by 400–600 basis points “resulting in millions of illusory EBITDA,” that the company had misrepresented its “largest acquisition ever,” and had had auditor troubles at a number of foreign units. The \$13 billion electronic instrument and electrochemical device company hasn't responded to the allegations, and the stock is up slightly since Axler originally announced. Given the relative lack of media coverage, the sheer depth of the report, and Axler's history of success, we'd be surprised if there wasn't more to this story in 2015.

3. **Nu Skin**: Consumer product companies selling in China have been under siege for years. Multi-level marketing (MLM) sales structures—think Mary Kay—are illegal in mainland China, and several companies have been caught pushing the regulatory envelope. In 2012, Citron Research said two companies—USANA Health Sciences and Nu Skin Enterprises—were pyramid schemes. USANA has doubled since then. Nu Skin, after rocketing up to almost \$140, is back down to hovering around the mid-40s since August,

Ticker: NUS

Exchange: NYSE

Short-seller: Bronte Capital

Campaign Announced: 8-18-2014

Market Cap at Announce:
\$3.0 billion

Market Cap Today: \$2.5 billion

Price at Announce: \$50.22

Price Today: \$42.24

Return to company since
announcement: -16%

slightly below where it was when Citron released its first report in 2012.

In early 2014, Nu Skin plummeted after a negative report in the Chinese newspaper the *People's Daily* said the company was a "suspected illegal pyramid scheme." Chinese regulators followed shortly thereafter, ultimately giving the company a small \$524,000 fine for directly selling products that were only cleared to be sold by retail.

This August, John Hempton of Bronte Capital entered the fray, calling Nu Skin's product "vastly overpriced vitamin pills." He's pilloried the company's levels of debt and store distribution in China, noting several stores planned for the Gobi Desert, while drawing a contrast between Nu Skin, which he is short, and Herbalife, which he is long and has vociferously defended.

Hempton believes the company's use of its revolving credit facility suggests the company's cash, much of which is located in international subsidiaries, may not be so easily accessible, implying that the company's financial position may be much weaker than it appears.

4. **Bofi Holding (BOFI, \$1.1 billion)**: The Bank of the Internet soared after some well-timed asset buying just after the 2008 market crash, but this year four activist shorts have predicted the company will decline in an increasingly competitive internet banking space.

5. **Athenahealth (ATHN, \$5.6 billion)**: The CEO thinks he's going to transform the health care space, but David Einhorn thinks the company's a bubble just waiting to pop.

6. **FuelCell Energy (FCEL, \$0.45 billion)**: FuelCell Energy has retreated sharply from its 52-week highs because,

if you believe Alpha Exposure, The Street Sweeper, or the director who just resigned citing “limited domestic sales,” it’s going to have trouble finding a replacement for its biggest customer, POSCO (PKX).

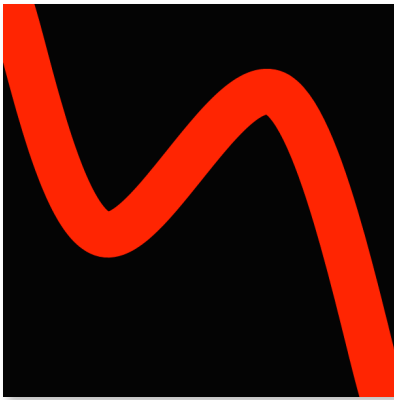
7. **iRobot Corporation (IRBT, \$1 billion)**: iRobot says its robotic vacuums are on the rise, but Spruce Point thinks this company is playing a little sleight-of-hand with its accounting to cover up a decline in sales.

8. **NQ Mobile (NQ, \$0.34 billion)**: NQ Mobile has dropped over 80% since Muddy Waters first shorted it while alleging fictitious revenue at the end of 2013, but the company is still hanging on even after swapping out its Big Four auditor this summer.

9. **AmTrust Financial Services (AFSI, \$4.1 billion)**: Alistair Capital just recently jumped into the activist fray on AmTrust Financial, joining GeoInvesting and Gotham Investing (no relation to Gotham City Research), who have argued for months that this insurance company was playing fast and loose with its accounting. Note that despite the large market cap, AmTrust has seen high borrow costs.

10. **Freshpet (FRPT, \$0.55 billion)**: The Street Sweeper thinks Freshpet is going to have a tough time breaking into the ultra-competitive pet food industry.

THE SHORTS SPEAK



We asked some of the biggest short-sellers directly about the market in 2015.

What sector is most ripe for short-selling in 2015?

What's your favorite short for 2015?

Here's what they had to say:

**Manuel
Asensio**

“We have identified an identity theft security company that we believe to be a worthless fraud.

Manipulation of interest rates and inflation statistics has caused distortions in equities valuation that continue to provide a great deal of fraud shorting opportunities. However there are stock and sectors that are absurdly unrealistic but just like negative-return interest rate will remain irreparably grossly overvalued until interest rate manipulation is corrected.

Denying inflation and alleging that negative interest rates are in the best interest of the overall economy empower stock market manipulations of all kinds right up to types operated by Tesla and Netflix.”

Muddy Waters (Carson Block)

“With spreads possibly beginning to normalize, there could be some interesting shorts among companies that have levered up their balance sheets the past few years with cheap debt to fund share buybacks and acquisitions.”

GeoInvesting (Dan David)

“My short is QUNR [Qunar Cayman Islands]. The China economy is starting to really crack now with shadow banking finally getting some of the scrutiny it has long deserved. The China real estate market outside of tier one cities is already terrible and now the rush to the A share market will cause a bubble in their stock market.

Travel will be one of the first luxuries to go and CTRP is in much better shape than QUNR. I will look for the right entry point for a short position in QUNR possibly sometime this year.”

Spruce Point (Ben Axler)

“My favorite shorts continue to be both Ametek and iRobot for all the reasons I've previously articulated in my reports.

Neither iRobot, nor its supporting analysts, can explain why its DSI is astronomically high, why it lacks any operating cash flow YTD, and why the entry of Dyson into the market place won't pose serious downside risks.

Neither Ametek, nor its supporting analysts, have offered any solid rebuttal to my claim that its inventory accounting is problematic, and that a negative audit opinion covering all of its globally marketed products in India (which confirm the SOX whistleblower complaint), aren't just pure coincidence.”

The Pump Stopper

“Honestly there are so many sectors ripe for disastrous implosion, that in the same way I don't love any of my children more than the other, I can't pick just one. The biotech sector seems just ripe with nastiness floating to the top but there are many sectors in the technology space that also seem to be clogged with rubbish. Simultaneously many garbage oil and gas names are likely to go very very bankrupt next year too. Biotech. Ebola, HIV, and Cancer, oh my! Many sick companies in these subsectors have also infected the market with terminal stocks, and the life expectancy of many of these stocks is very short. So I'm short specific names in these areas too.

My "Short-stradamus" short pick of 2015 is IWSY [Imageware Systems], now even more worthless than ever. No public company in history has ever quoted a negative stock price but IWSY may soon achieve this remarkable feat. By noting the obvious impossibility of ever showing meaningful results from trying to fix the world's cyber security issues with an old technology that seems to me to have failed for over 10 years straight, and considering future anticipated overcompensation for management (anything above \$0), discounted back to the present, I reach a fair value of -\$5.73 per share for this two-flusher of nastiness. However, I believe my estimates are quite conservative and IWSY could actually be worth much, much less than my stock price target.”

Alfred Little (Jon Carnes)

“Sector: Biotech - 2014 capped off a fourth year of astounding strength in the sector. I'm betting against it in 2015. Biotech companies in general deserve low valuations because of their proven track record of failure to develop safe and effective new drugs. Personally I blame this failure on antiquated intellectual property laws that hinder innovation and on regulation. Abolish the FDA!

Stock: Dangerous to pick any one stock in the sector, so I recommend shorting a basket or an index.”

**Kerrisdale
Capital
(Sahm Adrangi)**

Sector most ripe for short-selling: “Biotech.”

Favorite short: “Globalstar. Company's spectrum reuse plan will never be commercially viable.”

**Richard
Pearson**

Richard Pearson wrote to us saying that the biotech sector was most ripe for short-selling in 2015. His favorite short is Synageva BioPharma (GEVA), which he first announced in April 2014.

**Meson Capital
(Ryan Morris)**

“Biotech and Pharma - There are an incredible number of small cap biotech/pharma companies that are complete scams that have been driven up with the progress in the space overall and investors need to become more discriminating at some point.”

Favorite short: Odyssey Marine Exploration. “OMEX is almost certainly going to file bankruptcy and go to zero given its huge debt load and lack of financing options.”

**Greenwich
Research**

“Florida storm insurance. FNHC, UIHC, HCI, UVE. HCI being the best short in the group. Under reserved, just buying policies from Citizens for growth and that is now over, no underwriting team, huge portfolio run off, past management unfair dealings, i.e. monster bonus for everyone Q1 2014. Overall hurricane risk profile. 3x book. Historical valuation 1x book.”

Of course, the biggest campaign of 2015 is probably one we haven't heard about yet. As Whitney Tilson told us ...

Whitney Tilson

“I can’t talk about my favorite short right now – but stay tuned. Will be a doozy ...”

Activist Shorts Research will be there to tell you about it when it happens.

Activist Shorts Research is the first and only activist short-seller database. If you are not already a subscriber, please email akommel@activistshorts.com for a free 30-day trial.

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