

# “Activist” Short Selling

Absolute Return Symposium

February 17, 2016

The logo for Muddy Waters Capital is located in the bottom right corner. It consists of three horizontal bars of increasing width and decreasing height from top to bottom. The top bar is light brown and contains the word "MUDDY" in dark brown, bold, sans-serif capital letters. The middle bar is a medium brown and contains the word "WATERS" in light brown, bold, sans-serif capital letters. The bottom bar is dark brown and contains the word "CAPITAL" in white, bold, sans-serif capital letters.

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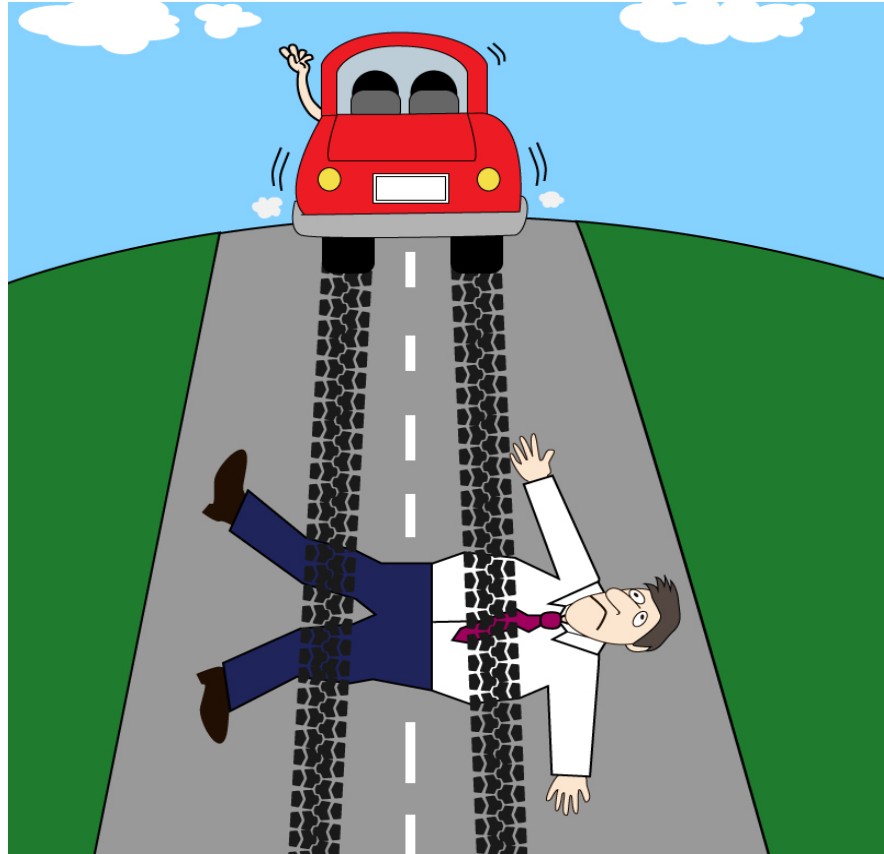
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In the Beginning...There was the  
“Gentleman” Short Seller

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# There Was Just One Problem



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# A Legendary Investor on Short Selling...

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# Sino-Forest Spent over \$50 million to Try to Discredit our Research

Included obtaining a purportedly exonerating report from a PRC law firm that was essentially a “complete fabrication” (per the bankruptcy trustee)

# But Al Gore Changed Everything!

 **Jonathan** added you to list **chariton01/catalyst-popup** 8m

 **A Patel** and **clou** liked your Tweet 39m

Jan 25: Reuters @jennablan article on Muddy Waters principal starting a fund management firm [reuters.com/article/funds-...](https://www.reuters.com/article/funds-...)



 **A Patel** and 28 others followed you 41m



 **Jack Wu** and **clou** Retweeted you 51m

Jan 25: Reuters @jennablan article on Muddy Waters principal starting a fund management firm [reuters.com/article/funds-...](https://www.reuters.com/article/funds-...)



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# Orient Paper (ONP) - The Humble Origins of Muddy Waters



# ONP “Main Competitor” Nine Dragons



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# PP&E Worth \$54.4 million?



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# PP&E Worth \$54.4 million?



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# Trash Heaps Worth \$5 million?



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# June 28, 2010 Report Distribution List

- ~50 investment professionals who had last heard from me 9-10 years earlier
- ~25 friends



# ONP June 28, 2010 - Present



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# Five Years Later

- ONP ~\$1
- MW has over 30,000 Twitter followers
- ~15,000 signups for our email list

# What I Look for in a Short

- Actual fraud or “moral fraud” (financial engineering)
  - Enron vs. Enron
- Backwards looking analysis
- Arguing about the future is often like arguing about the existence of God
  - Exceptions include massive TAM overstatement, misperception of what company actually is
- The bottom line is that I have to see something significant that the market doesn't



# NOBL SP – Financial Engineering



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# CO FP – Financial Engineering

- Extreme complexity making it hard even for ratings agency to calculate leverage
- Likely inflating core business EBITDA through related party transactions in way that significantly understates deterioration in core business
- Parasitic controlling shareholder structure

# PFPT – TAM & Misunderstood Nature



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# High Degree of Focus on Management / Company Behavior

- Transcript Analysis
  - Read several quarters at a time to look for disappearing initiatives, changes in language.
  - Are questions ever evaded? Which ones?
  - Are the questioners the same, and if so, do they seem too close to management?
- Ask “Does management’s explanation of a given action provide the best fit?”
- Question opacity and evasion – accounting is never proprietary

“I told Carlos Slim that he should clean both of his rear mirrors, because I would not warn him on which side I was going to overtake him.”



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# BLNX: 12/31/13 – 9/3/14



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# Executing Campaigns

- Full activist campaigns
- “Light touch” campaigns
- Post-initiation information flows

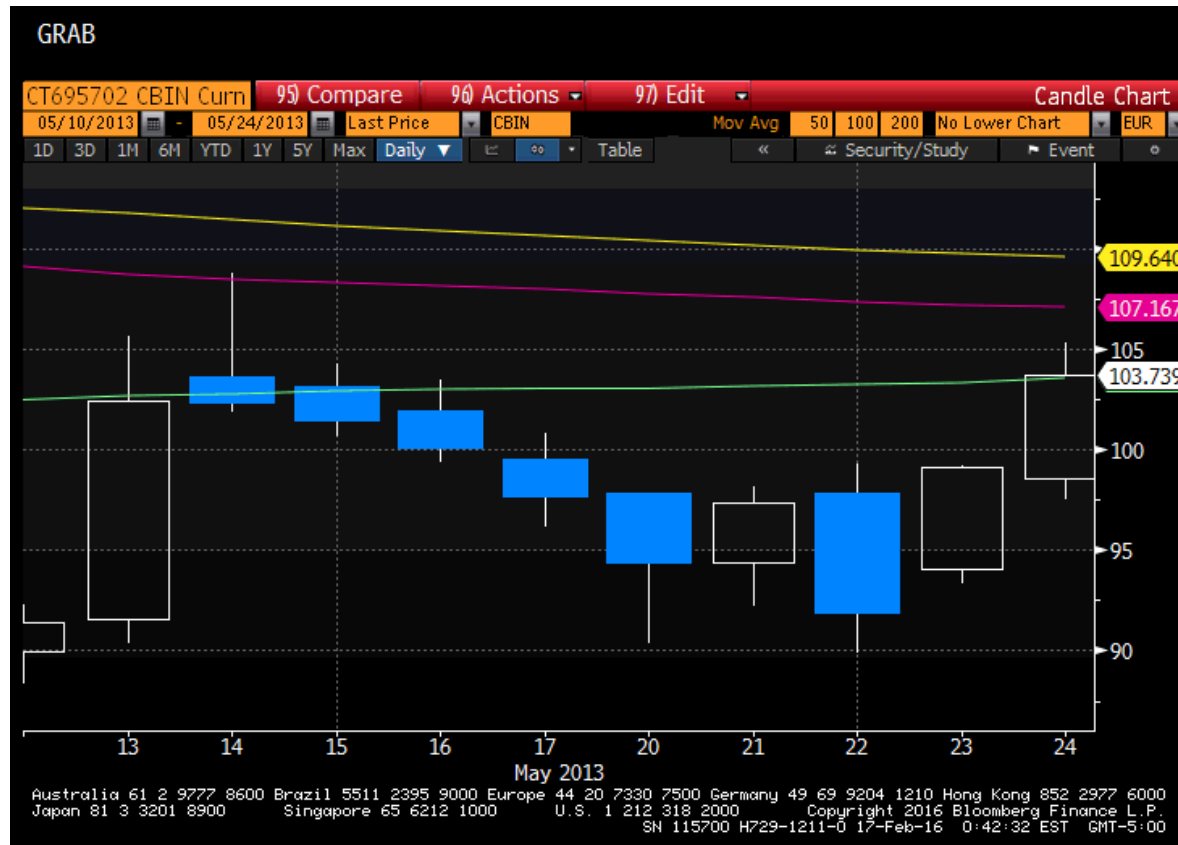
# Typical Flow - NQ



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# Light Touch Particularly Interesting in Credit



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# In Conclusion

- The internet has made the playing field more level between short sellers and companies with venal managements
- Focusing on historical information and facts is easier than trying to guess the future
- Always learning about the communication side of the business

Thank You!

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