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**Subject:** subject to confidentiality -please do not forward- write up (from transcript) on soon to be "Activist" short

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Hi everyone. Let's start with the Japan short position that is causing most of the pain, but I will not be disclosing the name in this format. What I can say is that the company went public in 2015 and is up 12x in less than a year since it's IPO. The company is not a start up. In fact, it's been around for 15 years. While there is no sell-side coverage, this company has missed our expectations all 3 quarters since going public as well as their own annual guidance. Their strategy- this is coming straight from the CEO- is to keep putting out press releases until the stock reaches *his* market cap target. On that front they are very good at naming every buzzword as well as big name partners that have never heard of this company when we inquire. Close to 60 promotional press releases to be exact, but no investment whatsoever in terms of employees or capex to act on these initiatives nor has there been revenues from any of these deals. This self-proclaimed cutting edge tech company pays their 50 employees call center wages and spent a grand total of \$5,000 US on capex last year. This is the same company that intends to monitor robots on the moon- I kid you not that was a press release that got the stock up over 20% one day this month. Insiders have unloaded since the IPO- the biggest pumper on Twitter has gone from 24% stake at the IPO to under 5% as of last filing and likely zero today- and the underwriters of the IPO are also on the board. Needless to say, for these reasons and others that we'll keep close to the vest- we believe this has been a coordinated fraud from the onset.

This stock traded off hard on the results in mid Feb and mgmt chose not to give FY16 guidance as is customary in Japan. We thought after the miss and no guide, that the gig was up and retail would now understand that all these press releases have no impact on revenues, cash flow, or fundamentals. We expected the stock to trend back to it's unjustified IPO price that was another 70% lower. Instead of getting paid as we fully expected, the stock has preceded to rip over 250% from post earning lows in mid Feb. A stock that was once down 40% YTD on earnings & stupid valuation is now up 120% YTD / +100% MTD on the meaningless press releases that have followed. A company that after 15 years is still doing less than \$8m US in revenues is trading at over 100x revenues, 350x OP, and 800x FCF!?! In my 20 years in the business, I've never seen anything like it.

So what's our game plan now?

1. From a risk management perspective.....Unlike all the other hyped shorts that we've been involved in that have collapsed over the past 3 years- especially when eclipsing close to \$1B market cap with negative revisions- this one has taken on a life of it's own. We have been maxed out for roughly 3 weeks @ a 7% position size and have been forced to cover to keep the position at that level as the stock has gone higher. Going forward, we will be adding or subtracting from the position on a daily basis to keep the position at 7% until the short plays out as it should have already.
2. It's time to control our own destiny.....It's been clear over the past 3 weeks that we can't count on retail to sell even when numerous red flags and negative catalysts should now be obvious. So it's time to do the work for them and disseminate appropriately. There is no Muddy Waters or Carson Block in Japan despite widespread hype, insider trading, and other obvious misrepresentations. We now intend to be that anonymous voice to the Japan retail investor. This week we hired a highly respected business intelligence agency to investigate insiders and press releases for this particular company. In 3-4 weeks we expect to be able to release our findings on the social media outlets and blogs that influence a retail-driven stock such as this. If this approach is as successful as we expect it to be, our plan is to extend this strategy well beyond this particular short when need be. Our short book performance in Japan has been off the charts since inception until this past month. We believe that our own research with business intelligence disseminated in the retail channels will only enhance these returns going forward and is a potential game changing strategy.

In terms of the broader Japan market opportunity, we have numerous new shorts that are up 4-10x from recent IPOs or long-term trading ranges and are just as guilty as exaggerating the truth and hyping new themes. Many of these have bounced hard since mid-February as the Mothers Index is up an incredible 52% over those 6 weeks. While the Nikkei remains one of the worst markets this year down 11% YTD, the Mothers is now second only to the Bovespa at +14%. We have no chance at making money with dispersion like that with our short book heavily weighted to these smaller cap names and our longs higher quality and larger market cap. We've seen greater than 30% monthly moves in the Mother's Index before and weathered the storm as shorts still went down on bad news. This particular extreme move has been unique in that correlation was extremely high and everything has ripped regardless of fundamentals. The correlation has

been beyond frustrating as most of these shorts missed and lowered and have no valuation support just like our largest short that we discussed earlier. For example, a cybersecurity short which we disclosed in a recent call missed annual revenues by 50%....one of the worst whiffs I've seen in my career.....trading at 50x revs with no operating profits.....and is up more than 50% in the past month just because.

While earnings catalysts and insane valuation may have justified running net short Japan as a region, that positioning has cost us this month. In addition to losing over 600bps gross from our largest short, we have lost an additional 450bps gross in Japan in March. While extremely disappointing this month, we have consistently generated tremendous alpha from our Japan short book and will continue to do so going forward. To give you some #'s, our Japan short book has generated 63% gross profits since inception before this month with the Mothers Index up over 65% over that time frame. We didn't need the Mother's market to go down in the past to make money and we won't need it going forward. That being said, with the Mother's trading at close to 100x earnings (and our short book much much higher) with negative earnings revisions, we believe the risk reward on this market is for it to trade much lower. While there are usually 2-3 retail hyped themes at any given time, today there are close to 10 with more massive unjustified moves than we've seen since inception of the Fund. I'd go so far to say if I had to make 5 investments right now for the coming 6 months, a year or 2 or 3....whatever time frame you want..... I would pick 5 Japan shorts and call it a day. We are extremely confident our patience will pay off just as it has the past 3 years when we've been jammed in this market.

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