



ActivisM Short Selling: Purely Moral Short Theses

MUDDY WATERS CAPITAL LLC

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Some High Level Thoughts On This Age

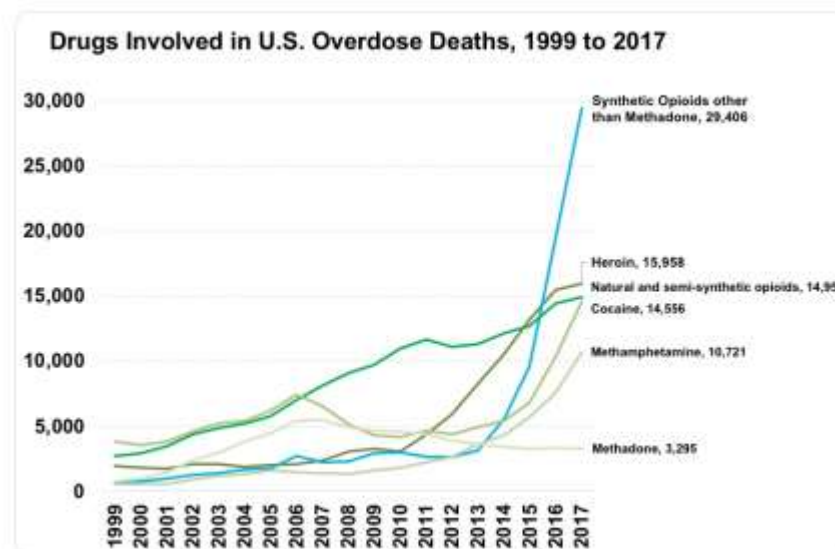
Devolution of technological supremacy

Humans' inventions / innovations vs. ability to adapt to our creations

Decay of institutions

The Private Sector is Far More Powerful than Any Other Point in Modern Times

The consequences are staggering



63,617 Americans died in 2017 from heroin and opioid overdoses. 58,220 Americans died over the entire Vietnam war. A not insignificant portion of the blame goes to Purdue Pharma.

Why Does This Matter Right Here, Right Now?

We are the lifeblood of this bad behavior

It's not about "corporations" "pursuing profits"; it's individuals incentivized by the markets to "break things"...like our society.

Investing is Inherently Amoral, Increasingly Leading to Immoral Outcomes

Soapbox: Investors need to understand their role – lots of individuals have blood on their hands, but probably don't know it

Example 1: INSY –
Manufacturer of Subsys
(synthetic opioid)

Allegations Against INSY

Bribed doctors to unnecessarily prescribe Subsys through paid "speaking appearances"

Former CEO, chairman, and sales execs indicted for racketeering (pending)

In Other Words, They Fucking Killed People

← → ↻ 🏠 <https://www.statnews.com/2016/09/30/fentanyl-opioid-nsys-subsy/> 📄 ⋮ 📱 ☆

A potent painkiller, and the drug maker's marketing, are faulted in a woman's death

By DAVID ARMSTRONG / SEPTEMBER 30, 2016
Videos by MATTHEW ORR @matthew_orr



Not Corporate "Pursuit of Profits"

Former CEO Michael Babitch net sold \$51.2 million of stock

Founder / Chairman John Kapoor had risked tens of millions of his own money on INSY

(Share sales data: S&P Capital IQ)

May 6, 2014 arraignment of major prescriber of Subsys

May 13, 2014 NYT Article “Doubts Raised About Off-Label Use of Subsys, a Strong Painkiller

Minimal Impact on the Stock (Tough Short)

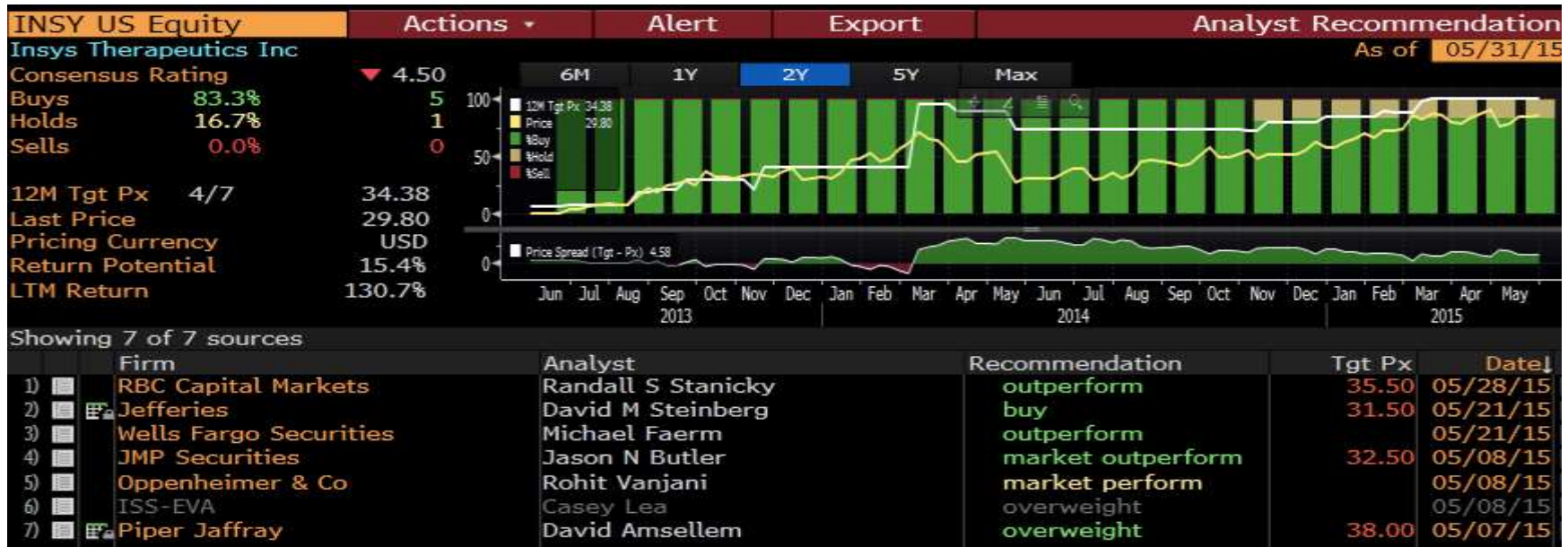


Two Alabama doctors indicted for illegal opioid distribution

Stock dropped ~10% intraday

David Steinberg, Edward Chung, and Amran Gowani of Jefferies wrote on May 21 that even though “a prior media report had indicated that both doctors were high volume prescribers of Subsys...A deeper inspection of this specific issue suggests little relation to Subsys or in particular to INSY.” This was based on the complaint not specifically mentioning Subsys

INSY Stock Recovered and Reached New Highs by August 2015



August 5, 2015

INSY announces it settled with Oregon for \$1.1 million for illegally marketing Subsys for off-label use

Sell side reaction:



Fortunately the Incentive for Ruining Live Began to Disappear



This is a company that literally killed people

The incentives at the top were clearly stock market driven

While Babich, Kapoor, and other former execs indicted, who has been held accountable on Wall Street?

Example 2: AAC

Look at This Happy Folks – October 2014



Jerrod Menz Would be Indicted by California (Later Dismissed by Court)

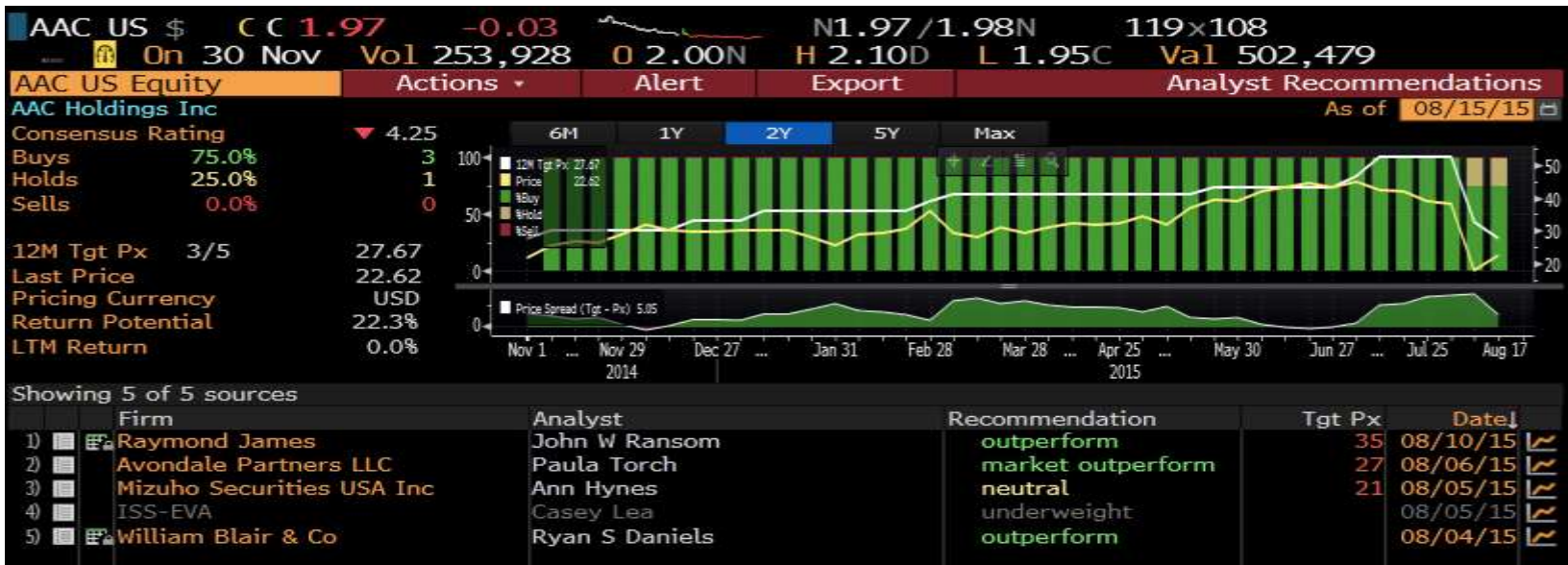


March 2015 – Activist campaign begins emphasizing overbilling

Activist campaign then turns to deaths at facilities

July 2015 California prosecutor indicts Menz, AAC subsidiaries, and four employees (three former) for murder (the judge later dismissed the indictments)

Sell Side Reaction?



How About the Buyside?

AAC US Equity		Export		Settings		Security Owners	
AAC HOLDINGS INC						CUSIP 0003	
1) Current		2) Historical		3) Matrix		4) Ownership Summary	
5) Insider Transactions		6) Options		7) Debt			
Search Name		All Holders, Sorted by Size		21) Save Search		22) Delete Search	
Text Search		Holder Group		All Holders		23) Refine Search	
24) Color Legend		Last four quarters as of 2015		Q4		Investment Manager View	
Holder Name	Portfolio Name	2015 Q1	2015 Q2	2015 Q3	2015 Q4		
1. Cartwright Michael T		5,728,207	5,700,000	5,716,666	5,726,666		
2. Menz Jerrod N		5,172,821	5,172,821	5,172,821	4,922,821		
3. TimesSquare Capital Managemen...	TimesSquare Capital Man...						
4. Deerfield Management Co LP	Deerfield Management Co...	446,328	303,027	1,601,376	1,782,094		
5. San Francisco Sentry Investmen...	San Francisco Sentry Inv...						
6. Morgan Stanley		8,647	7,149	13,466	28,720		
7. Altrinsic Global Advisors LLC/DE	Altrinsic Global Advisors ...	124,370	144,370	504,370	504,370		
8. Stephens Investment Manageme...	Stephens Investment Man...		127,450	405,390	401,165		
9. Royce & Associates LP	Royce & Associates LP	187,900	187,900	0			
10. Burch Lucius E		983,521	983,521	983,521	977,411		
11. Cortina Asset Management LLC	Cortina Asset Managemen...	164,620	174,304	360,191	763,757		
12. CI Investments Inc/Canada		45,478	144,370	144,370	504,370		
13. BlackRock Inc		253,318	382,634	422,596	437,150		
14. Apollo Management Holdings LP	Apollo Management Holdi...						
15. Bostelman Jerry D		678,551	678,551	678,551	678,551		
16. Vanguard Group Inc/The		141,461	232,500	274,719	288,639		
17. Hillis David							
18. Manz Kirk R		542,938	542,938	542,938	542,938		
19. Mondrian Investment Partners L	Mondrian Investment Par			1,000	1,000		

300) Edit Panel 301) Expand Panel

Menz & Cartwright Should Offer a Prayer of Thanks to the Wall Street Gods

Menz net sold \$21.8 million of shares; \$18.4 million since indictment

CEO Cartwright has net sold \$8.8 million; \$5.3 million since indictment



Share sale data Bloomberg; S&P Capital IQ

Don't Worry – The Money Went to Good Use

[NASHVILLEPOST]

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AAC CEO, right-hand man buy Bahamas land

Execs also sell more stock through trading plans

AUTHORS [Geert De Lombaerde](#)

The leader of AAC Holdings and his former president have paid \$12 million to grow their property portfolio in the Bahamas.

AAC Chairman and CEO Michael Cartwright and Jerrod Menz late last month each contributed 150,000 shares of the Brentwood-based provider of addiction treatment services toward the purchase of about 280 acres in the Exumas, an archipelago of more than 360 cays and islands located southeast of Nassau. Cartwright told the *Post* the duo had 14 months ago placed a contract on the land, which is near other property they own. The stock accounted for half of the deal's consideration.

INSY & AAC show how the amorality of the capital markets leads to immoral outcomes

Losing money is not the point

Investors have blood on their hands; once on notice, should be a moral obligation

Investors' moral obligation in potential immorality situations stronger than in frauds

Test: "If I do / don't do X, am I providing financial incentive for the management to do serious harm to people other than myself?"



For Short Sellers

What is a Morality Short?

Unabashed about why to sell the stock – pure form ESG

Drop the regulator wrapper

We have to distinguish between charcoal and black – frauds, financial scams likely bad choices

Healthcare is Ground Zero

Why Would a Morality-Based Short Thesis Work Now?

Macro reasons

Let's change the game – time to name names

Morality shorts are not for every activist short seller



Live Situation to Watch: HIIQ

Seller of short-term health insurance policies

Subject of at least three different short activist campaigns, stock resilient

Allegations are of selling junk insurance through boiler rooms

(Muddy Waters Capital has no position in the securities)

If Allegations are Largely True, Seems to Rise to Level of Immorality Necessary

Complaint Submitted to Florida AG

“I was contacted by this company as an alternative to health insurance for the 2 months I was in between health insurance plan due to a new job. It seemed legit but I was misrepresented over the phone. I was told that if we were to go to urgent care it would be \$20 across the board and that we can make dr appts and go to the ER/hospital if necessary. So almost 2 weeks ago my 2 1/2 year old daughter had a fever and was complaining of ear pain. I called this company and asked which urgent care / pediatrician is within network and they told me they needed 10 days to find someone in network. I told them I couldn't wait 10 days bc my daughter was in pain and sick and they said sorry that they couldn't

help. I ended up taking my daughter to her normal pediatrician and paying out of pocket for the appointment and her prescription. I had emailed all documents needed for the claim for this appointment but have yet to be contacted or have the claim addressed.

I had signed up with this company because they promised that they could get discounted dr appts, prescriptions, and negotiate hospital stays/ER. When I called today to cancel my policy they told me that the ER was not included in my policy and that they couldn't do anything with my claim that was submitted. So I pretty much gave this company \$350 to do nothing. Please help me get this money refunded as we need this money to pay for other medical bills for my toddler.”

Wall Street Doesn't Seem to be Asking Too Many Questions

New short activist campaign launched last week

Randy Binner and Ryan Aceto of B. Riley wrote the next day (excerpted):

Aggressively Buy HIIQ on Weakness; Forward EPS Outlook Unchanged Despite Short Allegations

- **Multistate investigation resolution should proceed independently of this; we expect a manageable outcome, which could support a short squeeze.** HIIQ remains subject to a multistate exam related to claims-paying practices, agent appointments, and call center sales practices. **We believe there may be a monetary fine associated with this. However, we expect the fine to be manageable,** following Houston Casualty Company's (HCC) settlement on its multistate exam for \$5M earlier this year. HIIQ has ~\$45M of cash and generates ~\$35M of annual FCF. We will view any settlement charge as nonrecurring for operating EPS and believe it should be easily absorbed.
- **Closure on multistate should unlock distributors and investors who have been on the**

Other Live Situations Resulting from Activist Campaigns

Medifast (MED)

Acadia Healthcare (ACHC) – BTW, let's talk private equity

Capital markets participants are uniquely positioned to effect change

Need to rethink amorality of investing

It's time to name names



Thank You!