

Informational Summary about Short Sellers: Citron Research and Muddy Waters

In response to the release of two analytical reports published by Citron Research and Muddy Waters Capital, (together referred to as the 'Short Reports') which present controversial claims about the NASDAQ-traded company Nanox Imaging Ltd (NNOX), Deep Knowledge Analytics has conducted a thorough independent review of the reports to determine whether their claims can be justified, and have found a number of factual inaccuracies, methodological inconsistencies and deviation from standard analytical best practices in the reports, leading to the conclusion that the publishers of the reports have significantly misled investors, arguably with the sole purpose of promoting short-sale-related capital gains by lowering the public share price of the company in question. The present document outlines key findings and major conclusions from Deep Knowledge Analytics' independent analysis of Citron Research and Muddy Waters companies and Financial Experts' opinion about Nanox.

Citron Research

[Citron Research report on Nanox](#) (published on 15.09.2020)

Citron's analysis—titled "A Complete Farce on the Market: Theranos 2.0"—drew widespread attention, with several law firms soliciting investors looking to sue Nanox Imaging Ltd over its claims. Plaintiff Matthew White and law firm Rosen Law are one of the first to follow through, filing a proposed securities class action in New York.

Citron [claims](#) the company made false statements to both the SEC and investors to inflate its stock value, Bloomberg Law [reported](#). White and his attorneys also allege Nanox Imaging Ltd fabricated commercial agreements and made misleading statements about its imaging technology. Several other law firms also announced their own lawsuits on behalf of investors.

For some reason clicking on the report link for Nanox Imaging Ltd by Citron Research doesn't take you to a report anymore. Also, if you search Nanox Imaging Ltd on Citron's site or its archives, nothing can be found. The search archive can be found [here](#). Currently, Citron Research is long on CMPS, a stock we were long on weeks prior.

Also, there is no investigation based on Citron's report, it is not published in [their table of reports](#).

Head of Citron Research - [Andrew Left](#) is renowned full time short-selling professional and editor. StockLemon.com was started in 2001 as a self publishing blog that hosts reports regarding controversial companies. In 2007, the website was rebranded to Citron-Research.

Left became active in short selling by the age of 24. He has cited his experience with Universal Commodity Corp as the reason he started short selling stocks promoted by boiler-room scams.[4] When the boiler rooms eventually went out of business, Left started shorting stocks from bulletin-board scams, in which people would send out email blasts saying, "Buy this stock now or you'll miss out."

In April 1999, Left became president and CEO of Detour Media. He was named director of the company in November 1999. In 2002, his then employer Detour Media sued Left and prevailed on a \$25,000 default judgment against him.

Left switched to shorting the stocks full-time, using his own research to publish free reports on firms he feels are overvalued or engaged in fraud. In 2001, he founded StockLemon.com, now known as

Citron Research. According to Left, he has made profits every year since he started short selling. **He was a keynote speaker at the 2017 and 2018 Harvard Business School Investment Conference.**

Citron launched 51 investigative reports against S&P 500 companies, between 2009 and 2015, as well as several Chinese companies, citing allegations of pyramid schemes, ineffective products and accounting, or business frauds. In 2016, **Left was banned for five years by the Hong Kong Market Misconduct Tribunal** (chaired by [Mr Justice Hartmann](#)) **for disclosing false or misleading information** in connection with the publication of a research report on Chinese property developer Evergrande Group, and so inducing transactions under the Securities and Futures Ordinance. Despite being sued by multiple companies for the reports he has released, Left claims he has never lost a case in the United States; [the National Futures Association sanctioned Left and stated that he “made false and misleading statements to cheat, defraud or deceive a customer in violation of NFA compliance rules.](#)

One of the most publicized reports was on Valeant Pharmaceuticals. The firm published a report in 2015 accusing the company of channel stuffing as well as inflating drug sales. The report covered Valeant's business-model which massively spiked the price of drugs it had acquired marketing rights from. The 2015 report was followed by another on Philidor RX, a pharmaceutical distributor. As a result of the SEC investigation, Valeant shares dropped more than 90%.

In 2017, Exact Sciences was exposed as a company taking advantage of a “broken health care system”. According to the report, Exact Sciences has been pushing Cologuard to be the standard care when it comes to colon cancer screening. The truth as revealed by the investigators is that the company is actually losing money on a system that no longer works.

Famous companies Citron shortened so far: Tesla, Peloton, Lyft, Shopify, Nvidia, and other major companies, including Biotech startups.

Legal disputes with Citron:

- There is a [change.org](#) petition against Citron's repeatedly deliberate false and misleading reports, particularly Andrew Left who has been sued and convicted by regulators and governments: <http://chnng.it/YZ9bRdMPmP>.
- [Short seller Andrew Left sues Tesla and Elon Musk, claiming stock manipulation](#)
- [Valeant asks SEC to investigate Citron Research](#)

In 2019, our first full year of operation, Citron Capital, LP generated a gross return of 56.4% and net return of 43.3%,” according to Andrew Left. “The Fund's average exposure during 2019 was 75.8% long and 80.3% short. Characteristically, (even though he outperformed it by a wide margin) Left dismissed the S&P500's 2019 return of 29%: “(It) was largely driven by a few individual stocks (e.g., Microsoft and Apple).”

Mr. Left, who invests only his own money, said he has made profits every year since he started short selling 14 years ago. A Wall Street Journal analysis of 111 Citron short-sale reports published from 2001 to 2014 shows an average share-price decline of 42% in the year after a Citron report was released. Of those shares, 90 were lower one year later while 21 gained, according to data from S&P Capital IQ.

Muddy Waters Research (published on 22.09.2020)

[Muddy Waters on Wikipedia](#)

[Carson Block, founder In 2011, Block was ranked as a 50 Most Influential Thinker by Bloomberg Markets.](#)

Block grew up in Summit, New Jersey, and holds a law degree from Chicago-Kent College of Law. Mr Block's father Bill was an equity analyst with a reputation for credibility.

Carson's move into corporate investigations came when his father grew interested in Chinese companies listing in the US. Lunch with an executive of a company called Orient Paper led to an

invitation for him and a friend to Orient's factory. A long delay en route at Shanghai airport gave them opportunity to pore over Orient's filings.

Despite Mr Block's fame, his firm is relatively small in hedge fund terms at around \$225m in assets, according to a regulatory disclosure — a result, perhaps, of the limited opportunity set. Muddy Waters' main fund gained 20 per cent 2018, according to numbers seen by the Financial Times. That followed gains of around 15 per cent in 2017 and around 16 per cent after launch in 2016.

Mr Block's reputation precedes him. An appearance on Bloomberg TV two years ago, in which he said he would shortly identify his next short selling target in Hong Kong, triggered a fall in the Hang Seng index. **His big breakthrough was Muddy Waters' claims of fraud at Toronto-listed Sino-Forest, a Chinese forestry company** once valued at more than \$8bn and in which US star hedge fund trader John Paulson was a major shareholder. **The firm collapsed and the regulator has since declared it a fraud.** Some situations have proved more bruising. **His campaign against French retailer Casino saw the regulator open an investigation into Mr Block in 2016.** The following year Mr Block claimed someone had been trying to solicit information about his campaign, using tactics including impersonating a journalist and pretending to be a regulator. In September 2017, Block initiated a private lawsuit against Equifax, accusing the latter of neglecting to safeguard his personally identifiable information. He appears in the documentary *The China Hustle*, outlining his research into Securities fraud of Chinese companies through Muddy Waters.

Block made headlines at the beginning of 2020 when he posted a report to Twitter accusing Chinese coffee company Luckin Coffee Inc. of fraudulently inflating sales. In April, the company admitted that more than \$300 million of its sales from 2019 were fabricated.

[Muddy Waters Shorts Nano-x: their report](#) (published on 22.09.2020)

Muddy Waters shortened so far: Tesla, Joyy, eHealth, NMC Health, Bulford Capital, several Chinese companies (Sino-Forest corp.)

- [St Jude claims lawsuit class action against Muddy Waters](#)
- [Bulford Capital withdraws lawsuit against Myddy Waters](#)
- [SK Telecom criticized Muddy Waters report](#)

Park Jung-ho, chief executive of SK Telecom, received 100,000 shares in Nanox Imaging Ltd in the fourth quarter of 2019 as stock options. **Kim Il-woong**, the Hong Kong unit head of SK Telecom who provided consulting services to Nanox Imaging Ltd during its inception, was also given option awards of 1.2 million Nanox Imaging Ltd shares.

[Why Muddy Waters Went Short on Nanox Imaging Ltd. \(NNOX\)](#): The company offered options for its 1.2 million shares at \$2.21 per share, to the president of SK Telecom. The net worth of the offered options was equal to \$32.1 million. This deal was made before the SK telecom happened to invest in Nanox Imaging Ltd imaging.

[Financial Industry Experts about Nanox:](#)

1) In his article in *The Motley Fool* "[Why Are People Shorting Nanox?](#)" the author Taylor Carmichael, who is the well recognized financial expert, also frequently contributing to [NASDAQ](#) writes the following:

"The main argument seems to be that the company is a fraud. Citron says, "This \$3 billion company is no more than a science project with a simple rendering, minimal [research and development], fake customers, no [Food and Drug Administration] approval, and fraudulent claims that are beyond the realm of possibility." Both Citron and Muddy Waters have compared the stock to Theranos, the infamous healthcare stock that actually was a fraud.

That's a serious charge. It's not merely saying Nanox's stock is too expensive or too speculative. These shorts are claiming that the company is a criminal enterprise. Indeed, Muddy Waters, after calling the company "garbage," said that a "convicted felon, who crashed an \$8 billion market cap dot-com into the ground, was seemingly instrumental in plucking NNOX out of obscurity and bringing its massively exaggerated story to the U.S.

Unlike Theranos, Nanox actually has many board members with scientific knowledge. The company's 11-person advisory board includes a former chairman of the department of radiology at Duke University and a professor of radiology at Stanford University. On its two boards, Nanox has hospital

directors and healthcare industry executives and former executives, a professor of physics, a law professor, a medical screening professor, several doctors, and the deputy general counsel of the Bill and Melinda Gates Foundation.”

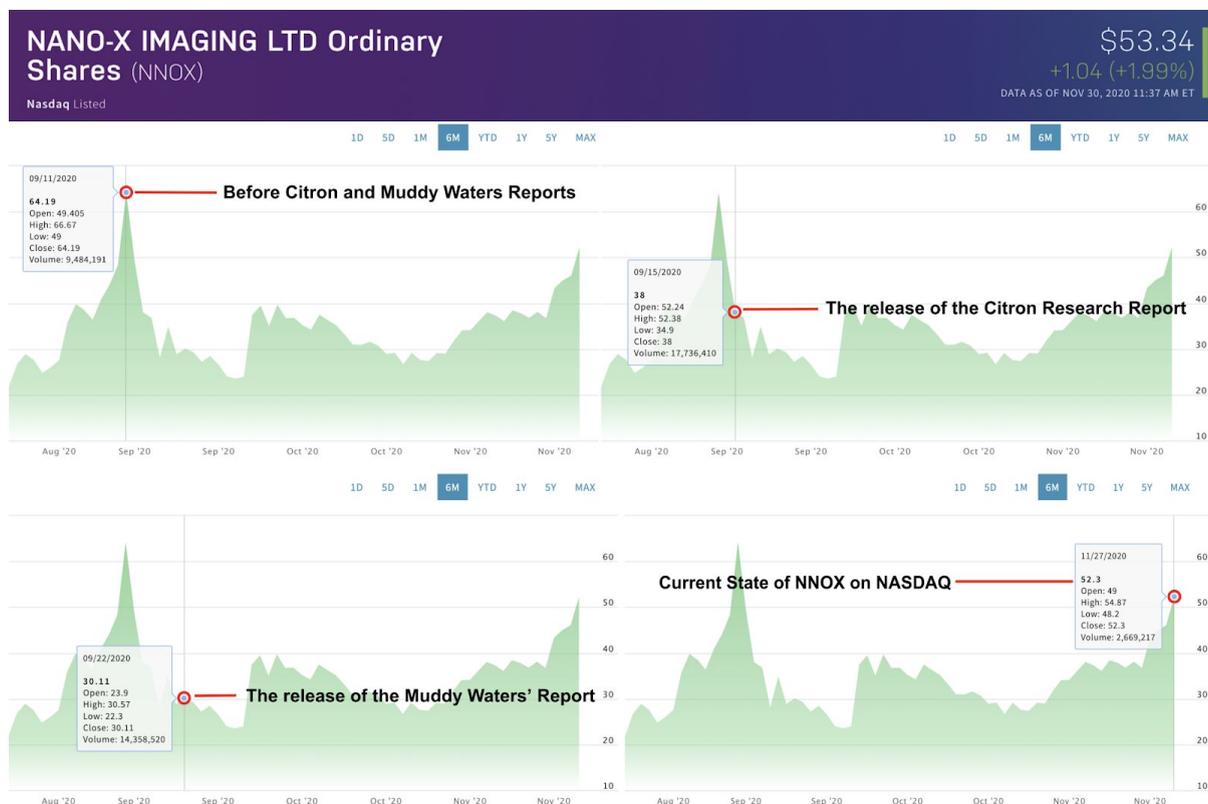
2) In his article in The Motley Fool “ [Is Nanox the Ultimate Contrarian Buy?](#)” the author David Jagielski, who is the well recognized financial expert, also frequently contributing to [NASDAQ](#) writes the following:

“It can be dangerous for investors to rely on short-seller reports, because they're often inherently biased. The companies or individuals preparing those reports can stand to benefit greatly if the stock falls in price, since, after all, they're short sellers. The terms of use and disclaimer on Muddy Waters' page discussing Nanox were more than four times the length of its actual analysis of the company. There were 1,600 words in disclosures compared to fewer than 400 words explaining why the stock is "garbage.”

Citron's research involved more analysis, but it also relied on a lack of evidence to justify its position. It also pointed to the fact that Nanox's R&D capabilities can't compare to an industry giant like General Electric. Following that line of thinking, few people would ever want to invest in the next tech start-up, since it couldn't possibly compete with an Amazon or an Apple in terms of resources. Citron's report also claims that Nanox has 21 employees in its entire company. However, on Nanox's prospectus, it stated that as of Jun. 30 it employed 27 people -- 21 in Israel and six in Japan.

Nanox also stated in its prospectus that it is conducting additional testing, which will be submitted to the FDA to support its 510(K) application. While the application has a high success rate, there are still no guarantees of approval.

Investors should have a healthy dose of skepticism when it comes to short sellers. After all, if you took Citron's advice a few years ago and shorted tech giant Shopify (NYSE:SHOP), you would be living with some weighty regrets. The company, which Andrew Left of Citron called nothing more than a "get-rich-quick scheme" in 2017, has skyrocketed more than 1,000% in three years. Today, the Ontario-based business is the most valuable company on the Toronto Stock Exchange (TSE).



Source: <https://www.nasdaq.com/market-activity/stocks/nnox>

We can see the highest volumes of trades of Nano-x shares on 11th of September - till end of September, especially the start of such high activity just before Citron Research report was published, as well as the Muddy Waters report.

Considering that the Citron Research report was moved to the archive, we could say it could be a planned action of a short seller hedge fund.

Many law companies claimed several class actions after the short sellers reports being published, which is a common practice for the industry, Class Action Lawsuits claimed against Nanox Imaging Ltd after short sellers reports:

1. [Wolf Haldenstein Adler Freeman & Herz LLP](#), 30.09.2020
2. [Kaskela Law LLC](#), 01.10.2020
3. [Robbins Geller Rudman & Dowd LLP](#), 05.10.2020
4. [Zhang Investor Law](#), 06.10.2020
5. [Kirby McInerney LLP](#), 09.10.2020
6. [The Law Offices of Timothy L. Miles](#), 11.10.2020
7. [Pomerantz Law Firm](#), 17.10.2020
8. [Rosen Law Firm](#), 31.10.2020
9. [Pawar Law Group](#), 4.11.2020
10. [The Schall Law Firm](#)
11. [Bragar Egel & Squire](#), 13.11.2020
12. [The Law Offices of Frank R. Cruz](#), 13.11.2020
13. [Portnoy Law Firm](#), 13.11.2020
14. [The Schall Law Firm](#), 15.11.2020
15. [The Klein Law Firm](#), 16.11.2020
16. [Bernstein Liebhard](#), 16.11.2020
17. [Hagens Berman](#), 16.11.2020
18. [Levi & Korsinsky, LLP](#), 16.11.2020
19. [Bronstein, Gewirtz & Grossman, LLC](#), 16.11.2020
20. [Berger Montague](#), 16.11.2020

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